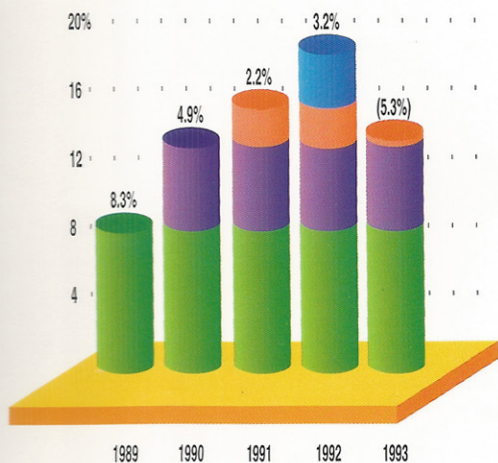




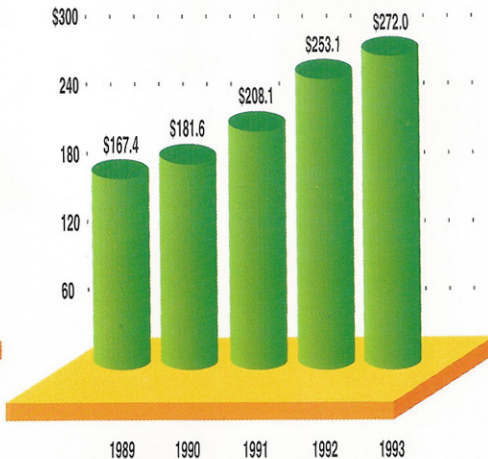
*Financial Highlights*

(Thousands, except per share data)	1993	1992	1991
Revenues .....	<b>\$271,998</b>	\$253,124	\$208,118
Income before income taxes .....	<b>18,247</b>	25,250	18,933
Net income .....	<b>\$ 11,891</b>	\$ 15,503	\$ 11,598
Earnings per share:			
Primary and fully diluted.....	<b>\$ 0.86</b>	\$ 1.11	\$ 0.82
Other information:			
Cash provided by operations.....	<b>\$ 44,905</b>	\$ 44,246	\$ 36,097
Purchases of property and equipment .....	<b>44,600</b>	33,903	25,088
Total assets.....	<b>193,649</b>	173,217	158,563
Long-term obligations .....	<b>29,765</b>	16,051	20,468
Shareholders' equity.....	<b>136,647</b>	132,167	115,500
Return on average shareholders' equity .....	<b>8.8%</b>	12.5%	10.8%
Increase (decrease) in comparable store sales:			
Chuck E. Cheese's .....	<b>(5.3)%</b>	3.2%	2.2%
Monterey's Tex-Mex Cafe .....	<b>(0.6)%</b>	8.4%	10.9%
Number of restaurants at year end:			
Chuck E. Cheese's and ShowBiz:			
Company operated.....	<b>215</b>	182	159
Franchise.....	<b>110</b>	113	113
	<b>325</b>	295	272
Monterey's Tex-Mex Cafe .....	<b>27</b>	28	27
	<b>352</b>	323	299

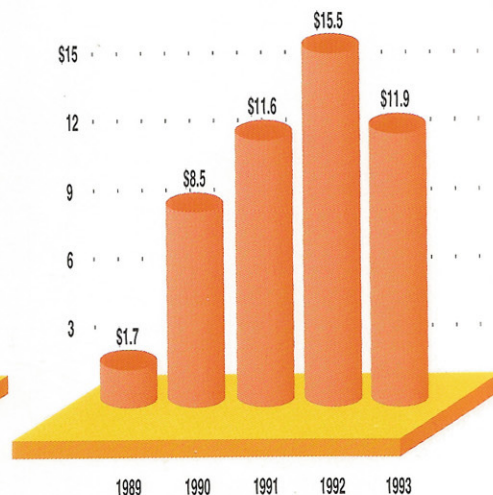
Comparable Store Sales Growth of  
Chuck E. Cheese's/ShowBiz Restaurants  
(percent)



Consolidated Revenues  
(millions)



Net Income  
(millions)



**TO OUR SHAREHOLDERS:** In every Annual Report to Shareholders since the Company went public in 1989, we have been able to inform you of strong sales and earnings momentum and our optimism regarding the future. The Company finds itself in a much different position this year, but retains an outlook of cautious optimism for the future.

**1993: A CHALLENGING YEAR.** The Company's revenues grew by a modest 7.5% over the prior year as a result of the continuing development and opening of new Chuck E. Cheese's restaurants. 33 Chuck E. Cheese's were opened during 1993 bringing the total of new stores opened from 1988 to 1993 to 82. Despite this continuing new unit growth, comparable store sales of the Company's restaurants that have been open for more than one year declined by 5.3% over their prior year performance. As a result, the Company's operating income and net income were adversely affected, declining by approximately 29% and 23% respectively. Notwithstanding these disappointments, the Company's continuing ability to produce strong operational cash flow remained an important indicator of the Company's financial strength and its ability to respond to the

type of challenges we faced in 1993. The Company generated cash provided by operations totaling approximately \$45 million.

**1994 AND BEYOND: WHERE WE GO FROM HERE.** Despite the challenges and disappointments of 1993, the Company remains, in our opinion, well positioned to compete in the family restaurant/entertainment business. Additionally, 1994 should serve as a springboard to new growth opportunities for the Company while possibly divesting of its Monterey's Tex-Mex Cafe division. The Company realized net income of approximately \$400,000 from this division in 1993, and anticipates a sale in excess of \$11 million.

To better understand the prospects for the future let's first look at the factors on which we focus regarding our Chuck E. Cheese's concept.

**THE CONCEPT: MARKET PENETRATION AND NAME RECOGNITION.** The Company has been a major player in the family restaurant/entertainment business since 1980. Notwithstanding

the disappointing performance in 1993, the concept experienced tremendous growth from 1986 to 1992 and remains the leader in its category. Its brand name and character names are some of the best



recognized in the segment and we are taking steps to ensure that they remain so. Additionally, the Company has more than 328 locations operating in 45 states and occupies a leadership position in most markets where the Company and its franchisees compete. This broad and deep market penetration permits the Company to take advantage of significant efficiencies in its advertising efforts.

**THE PEOPLE: OUR GREATEST ASSET.** We continue to believe that our people are our greatest asset and remain committed to their growth and success. In late 1993, the Company implemented a plan where we increased our number of Regional Vice Presidents from three to five while nearly doubling the number of district management personnel directly supervising our Company operated restaurant/entertainment centers. This increase will allow our field management team to have a much narrower yet sharper focus on both the development of their people and day-to-day restaurant operations. We believe these changes will permit us to ensure quality guest experiences while continuing to stabilize our overall management team.

In conjunction with this organizational change, we also increased the number of field recruiters in our system. This, coupled with

our ongoing commitment and efforts to improve initial and long-range training through Chuck E. Cheese University will help to round out what we believe to be an overall solid and comprehensive approach to those who ultimately hold the key to our future.

**FINANCIAL POSITION AND COMMITMENT TO REINVEST.** The Company's efforts in reducing its debt since 1989 have permitted it to be in a position to take aggressive measures in regaining sales and earnings momentum. The Company has for the last seven years continually reinvested in its facilities, updating its entertainment attractions and in general, enhancing the quality of the experience available to our guests in each location. The Company is committed to make capital expenditures of approximately \$40 million in 1994. Approximately \$14 million will be spent to capitalize on opportunities at existing locations. The remainder will be used to continue our development of new locations. Although we presently plan to fund such capital expenditures from operating cash flow, the Company currently has a substantial line of credit available to it. Other potential

uses of our cash include the continued repurchasing of our common shares.

**NEW ADVERTISING AGENCY AND CAMPAIGN.** In late 1993, the Company engaged the J. Walter Thompson Agency



of Chicago to revamp an advertising program and campaign that the Company believes had become, to some degree, stale and ineffective. J. Walter Thompson, a recognized expert in marketing to families and children, has devised a strategy of dual campaigns to parents and their children with totally separate creative approaches. The new campaigns were fully implemented in February 1994, and the Company believes they will play a significant role in revitalizing our concept. We remain excited about the potential of this new relationship and the impact it can have on our business.

Additionally, we believe that our advertising efforts will be aided by our operating solely under the trade name "Chuck E. Cheese's". By virtue of our ability to now concentrate on one brand name, the Company has gained immediate access to cable/network television, which continues to increase the efficiency of our advertising efforts.

**ENTERTAINMENT.** The Company continues to explore opportunities to maximize the attractive entertainment package it makes available to our guests. Major emphasis and dollars are targeted on new games and rides in our 1994 plans. This will be coupled with a rework and upgrade of our prize merchandise area as well

as an increase in the number of tickets dispensed in our game rooms to reinforce the "magic" of winning for our younger audience. Additionally, we intend to aggressively test ways to increase the value perception of our entertainment package.

In our show rooms, our plans are equally as exciting. We recently hired a new company to produce our shows. We are excited about this relationship and what it ultimately may translate to for our guests in the way of quality family entertainment. These efforts, along with our quest to bring the latest in entertainment value, will continue to position us as a unique and leading player in the entertainment area for families with young children.

**RESEARCH AND DEVELOPMENT.** The Company continues to evolve and capitalize on opportunities for improving food products, expanding its menu, and fine-tuning product presentations. The results that these efforts can bring has exciting potential for improving the overall quality of the dining experience as the Company continues its mission

to be the premier family entertainment and restaurant operators in the world.

**RETRENCHMENT OF NEW UNIT DEVELOPMENT PLAN.** Although our new unit development plan has been successful



over the last four years, the Company reduced the scope of its plans for 1994 to approximately 25 new locations to ensure a balanced focus on the existing store base as well as new unit growth. Projected growth should allow the Company to capitalize on new opportunities while also benefiting the existing store base by stabilizing management resulting in enhanced operations and increased guest satisfaction.

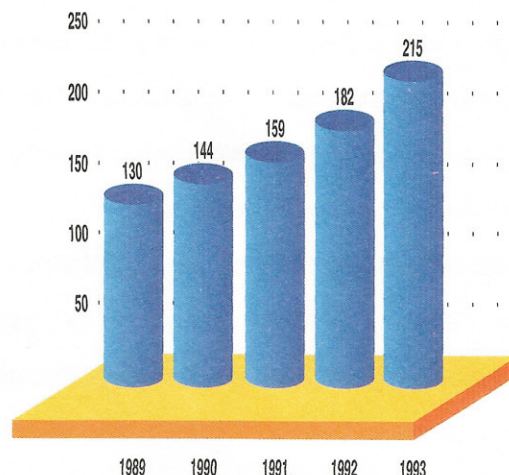
**CHUCK E. AND THE FUTURE.** We have many plans for 1994, and we will approach these endeavors with our usual passion for excellence. Although the future is always uncertain and competitive pressures are expected to increase, we are committed to our business and focused on those strategies which we believe will ensure the long-term success of the Company.

Additionally, management is committed to exploring and pursuing new vehicles for growth for future years. 1994 will be the year in which we work to expand our business internationally. Product licensing and new restaurant and entertainment concepts will also be carefully evaluated throughout the year.

**SUMMARY.** While we are humbled by the difficulties of the past year, we are fully challenged by the present and excited about



Number of Chuck E. Cheese's/ShowBiz Restaurants  
(Company operated)



the future. We see 1994 as a key transitional year for the Company, and our continued ability to generate shareholder value will be a direct result of our success in restoring the health and vitality to our top and bottom line performance. Obviously, there can be no assurance of future success; however, we remain committed to returning the Company to the exciting performance it enjoyed for the six years prior to 1993. We appreciate your continued support and look forward to sharing our progress with you in the months and years ahead.

Sincerely,

*Richard M. Frank*

Richard M. Frank  
Chairman and  
Chief Executive Officer

*John P. Spaight*

Terry Spaight  
President and  
Chief Operating Officer

*Selected Financial Data*

(Thousands, except per share data)	1993	1992	1991	1990	1989
Operating results (1):					
Revenues .....	\$271,998	\$253,124	\$208,118	\$181,558	\$167,443
Costs and expenses .....	253,300	226,686	187,295	164,305	161,467
Operating income .....	18,698	26,438	20,823	17,253	5,976
Other income (expenses) .....	(451)	(1,188)	(1,890)	(3,354)	(3,159)
Income before income taxes .....	18,247	25,250	18,933	13,899	2,817
Income taxes (2):					
Current expense .....	1,751	1,161	1,050	678	363
Deferred expense .....	4,605	8,586	6,285	4,769	712
	6,356	9,747	7,335	5,447	1,075
Net income .....	\$ 11,891	\$ 15,503	\$ 11,598	\$ 8,452	\$ 1,742
Per share (3):					
Primary:					
Net income .....	\$ .86	\$ 1.11	\$ .82	\$ .61	\$ .12
Weighted average shares outstanding .....	13,455	13,662	13,700	13,254	12,165
Fully diluted:					
Net income .....	\$ .86	\$ 1.11	\$ .82	\$ .61	\$ .11
Weighted average shares outstanding .....	13,464	13,713	13,728	13,367	12,711
Cash flow data:					
Cash provided by operations .....	\$ 44,905	\$ 44,246	\$ 36,097	\$ 29,884	\$ 20,038
Purchases of property and equipment .....	44,600	33,903	25,088	21,471	15,730
Balance sheet data:					
Total assets .....	\$193,649	\$173,217	\$158,563	\$146,435	\$142,662
Long-term obligations (including redeemable preferred stock) .....	29,765	16,051	20,468	25,788	36,731
Shareholders' equity .....	136,647	132,167	115,500	99,973	86,957
Number of restaurants at year end:					
Chuck E. Cheese's and ShowBiz:					
Company operated .....	215	182	159	144	130
Franchise .....	110	113	113	123	127
	325	295	272	267	257
Monterey's Tex-Mex Cafe .....	27	28	27	27	27
	352	323	299	294	284

(1) Fiscal year 1992 was 53 weeks in length while fiscal years 1993, 1991, 1990 and 1989 were 52 weeks in length. Certain reclassifications have been made to conform to the fiscal year 1993 presentation. See Notes to Consolidated Financial Statements elsewhere herein.

(2) During 1992, the Company adopted Statement of Financial Accounting Standards No. 109 — "Accounting for Income Taxes" and retroactively restated the financial statements of prior years.

(3) Per share information has been adjusted to give effect to three-for-two splits in the form of 50% stock dividends of the Company's common stock on March 20, 1992 and March 26, 1991. No cash dividends on common stock were paid in any of the years presented.

SHOWBIZ PIZZA TIME, INC. AND SUBSIDIARY  
*Quarterly Financial Information*

(Thousands, except per share data)	Revenues	Income (Loss) Before Income Taxes	Net Income (Loss)	Primary Earnings (Loss) Per Share <sup>(1)</sup>	Stock Market Data <sup>(1)</sup>	
					High	Low
1993						
1st Quarter .....	\$ 73,381	\$10,741	\$ 6,583	\$ 0.48	35½	25½
2nd Quarter .....	64,669	2,867	1,799	0.13	34½	16
3rd Quarter .....	71,636	5,276	3,895	0.28	17½	12¼
4th Quarter .....	62,312	(637)	(386)	(0.04)	15	12½
	<u>\$271,998</u>	<u>\$18,247</u>	<u>\$11,891</u>	\$ 0.86	35½	12¼
1992						
1st Quarter .....	\$ 64,851	\$ 9,066	\$ 5,558	\$ 0.40	29½	23
2nd Quarter .....	58,896	5,227	3,203	0.23	27¾	19¾
3rd Quarter .....	65,810	7,060	4,328	0.31	28¼	19¾
4th Quarter .....	63,567	3,897	2,414	0.17	34⅝	23¾
	<u>\$253,124</u>	<u>\$25,250</u>	<u>\$15,503</u>	\$ 1.11	34⅝	19¾

(1) Per share information has been adjusted to give effect to a three-for-two stock split in the form of a 50% stock dividend of the Company's common stock on March 20, 1992.



*Management's Discussion and Analysis of Financial Condition and Results of Operations***RESULTS OF OPERATIONS**

Revenues increased 7.5% to \$272.0 million in 1993 from \$253.1 million in 1992. Revenue generated by the Company's Chuck E. Cheese's and ShowBiz restaurants increased by 8.1% to \$253.0 million in 1993 from \$234.0 million in 1992 due to the net addition of 33 Company restaurants in 1993 and 23 Company restaurants in 1992. Sales from the Company's Chuck E. Cheese's and ShowBiz restaurants that were open during all of 1993 and 1992 ("comparable store sales") declined 5.3% between the years. Revenues from the Company's Monterey's Tex-Mex Cafe restaurants declined slightly to \$19.0 million in 1993 from \$19.1 million in 1992 primarily due to a decline in comparable store sales of .6% between the years. Fiscal years 1993 and 1992 consisted of 52 and 53 weeks, respectively.

Operating income decreased to \$18.7 million in 1993 from \$26.4 million in 1992 due primarily to declines in comparable store sales and operating margins in both restaurant concepts. A material portion of operating costs are fixed resulting in an erosion of operating margins at lower sales levels.

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

	1993	1992	1991
Revenue .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Costs and expenses:			
Costs of sales .....	50.5%	49.5%	49.6%
Selling, general and administrative .....	15.5%	15.7%	15.8%
Depreciation and amortization .....	8.5%	7.6%	7.8%
Provision for loss on property transactions...	0.2%	0.3%	0.1%
Other operating expenses .....	18.4%	16.5%	16.7%
	<u>93.1%</u>	<u>89.6%</u>	<u>90.0%</u>
Operating income .....	<u>6.9%</u>	<u>10.4%</u>	<u>10.0%</u>

**Chuck E. Cheese's and ShowBiz Restaurants****Revenues**

Revenues from the Company's Chuck E. Cheese's and ShowBiz restaurants increased by 8.1% to \$253.0 million in 1993 from \$234.0 million in 1992 due to sales from new restaurants opened throughout 1993 and 1992. Comparable store sales of Chuck E. Cheese's and

ShowBiz restaurants which were open during all of both 1993 and 1992 declined by 5.3% between the years. Average comparable store sales decreased to approximately \$1,259,000 in 1993. Menu prices were increased approximately 1.1% between the two years.

Management believes that several factors may have contributed to the comparable store sales decline, including generally severe winter weather and a March snowstorm that caused the brief closing of numerous restaurants, ineffective advertising and the decrease in number and apparent effectiveness of restaurants remodeled during 1992 and 1993. Other factors that management believes contributed to the decline in comparable store sales include increased competition and the impact of newly opened restaurants on comparable store sales of existing restaurants in certain markets. Some of the factors impacting comparable store sales are believed to be negatively impacting sales volumes of newer restaurants opened since 1988. New restaurants opened from 1988 through 1992 averaged approximately \$1,341,000 in sales during 1993, which is slightly in excess of the sales volume of the average Company restaurant. This compares to the prior year in which new restaurants had sales volumes significantly higher than the average Company restaurant.

Revenues from franchise fees and royalties decreased by 11.1% from 1992 to 1993 primarily due to 52 weeks of revenue in 1993 compared to 53 weeks of revenue in 1992, a 1.0% decline in comparable franchise store sales for restaurants open all of 1993 and 1992, and a decline in the number of restaurants operated each year. During 1993, the Company purchased two franchise restaurants, one new franchise restaurant opened and two franchise restaurants closed.

**Costs and Expenses**

Costs and expenses as a percentage of revenues increased to 92.9% in 1993 from 89.1% in 1992.

Costs of sales increased as a percentage of revenues to 49.7% in 1993 from 48.5% in 1992. Cost of food, beverage, prize and merchandise items as a percentage of restaurant sales remained constant at 18.0% in both 1993 and 1992. Labor expenses as a percentage of restaurant sales increased slightly to 29.0% in 1993 from 28.0% in 1992 primarily due to the decline in comparable store sales.

Selling, general and administrative expenses as a percentage of revenues declined to 15.6% in 1993 from 15.9% in 1992 due primarily to a decrease in management bonus expense and other corporate overhead expenses as a percentage of revenues which was partially offset by an increase in advertising expense as a percentage of revenues.

*Management's Discussion and Analysis, continued*

Depreciation and amortization expense as a percentage of revenues increased to 8.5% in 1993 from 7.6% in 1992 primarily due to the higher depreciation and amortization expense of new restaurants relative to older restaurants and the decline in comparable store sales.

Other operating expenses increased as a percentage of revenues to 18.9% in 1993 from 16.9% in 1992 primarily due to increased rent, utility and insurance expenses as a percentage of revenues and the decline in comparable store sales.

The Company provided for a loss on property transactions of \$585,000 in 1993 compared to \$654,000 in 1992 primarily due to closing three restaurants in 1993 and to the replacement of certain assets in conjunction with the remodeling of restaurants.

**Operating Income**

As a result of the changes in revenues and expenses discussed above, operating income decreased to \$18.0 million in 1993 from \$25.4 million in 1992.

**Monterey's Tex-Mex Cafe Restaurants****Revenues**

Revenues decreased to \$19.0 million in 1993 from \$19.1 million in 1992 due primarily to a .6% decline in comparable store sales between the two years. One restaurant was opened in the third quarter of 1992 and was subsequently sold in the fourth quarter of 1993. Menu prices were increased approximately 2.0% between the periods.

**Costs and Expenses**

Costs and expenses increased as a percentage of revenues to 96.6% in 1993 from 94.5% in 1992.

Cost of sales declined slightly to 61.3% in 1993 from 61.8% in 1992. The cost of food and beverage items as a percentage of restaurant sales decreased slightly to 27.4% in 1993 compared to 27.7% in 1992 due primarily to lower food prices on certain items resulting from a change in food distributors in the third quarter of 1992 and the increase in menu prices implemented in the second quarter of 1993. These factors were slightly offset by a change in product ingredients which was implemented in the third quarter of 1992. Labor expenses as a percentage of restaurant sales increased slightly to 31.7% in 1993 from 31.6% in 1992 primarily as a result of the decline in comparable store sales.

Selling, general and administrative expenses as a percentage of revenues increased to 14.1% in 1993 from 13.6% in 1992 primarily due to an increase in advertising expense and in corporate overhead expenses including an increase in research and development costs.

Other operating expenses increased as a percentage of revenues to 12.5% in 1993 from 11.3% in 1992 primarily due to an increase in rent and utility expenses as a percentage of revenues and the decline in comparable store sales.

The Company provided for a loss on property transactions of \$90,000 from the sale of one restaurant in the fourth quarter of 1993.

**Operating Income**

Operating income declined to \$652,000 in 1993 from \$1,049,000 in 1992 as a result of the changes in revenues and expenses discussed above.

**Consolidated Income**

Interest expense declined to \$797,000 in 1993 from \$1.5 million in 1992 due primarily to reductions in long-term debt of \$1.8 million in the first three quarters of 1993 and \$4.6 million in 1992 and reduced interest rates between the years. Income taxes were decreased approximately \$971,000 in the third quarter of 1993 due to a non-recurring tax gain resulting from the increased valuation of the Company's deferred tax asset due to an increase in federal corporate income tax rates enacted in 1993. The Company's net income decreased to \$11.9 million in 1993 from \$15.5 million in 1992 due to the changes in revenues and expenses as discussed above. The Company's primary and fully diluted earnings per share decreased to \$.86 per share in 1993 from \$1.11 per share in 1992.

**1992 COMPARED TO 1991**

Revenues for fiscal 1992 increased by 21.6% to \$253.1 million from \$208.1 million in 1991. Revenue generated by the Company's Chuck E. Cheese's and ShowBiz restaurants increased by 22.4% to \$234.0 million in 1992 from \$191.2 million in 1991, due primarily to the addition of 23 Company restaurants in 1992 and 15 Company restaurants in 1991, and a 3.2% increase in sales from the Company's Chuck E. Cheese's and ShowBiz restaurants which were open during all of 1992 and 1991. Revenues from the Company's Monterey's Tex-Mex Cafe restaurants increased to \$19.1 million in 1992 from \$16.9 million in 1991 due primarily to a 8.4% increase in comparable store sales. Fiscal years 1992 and 1991 consisted of 53 and 52 weeks, respectively.

Operating income increased significantly to \$26.4 million in 1992 from \$20.8 million in 1991 due to the increase in comparable store sales, new restaurant openings and improved operating margins in both of the Company's restaurant concepts.

**Chuck E. Cheese's and ShowBiz Restaurants****Revenues**

The 22.4% increase in revenues from the Company's Chuck E. Cheese's and ShowBiz restaurants in 1992 over 1991 resulted primarily from new restaurant openings in 1992 and 1991 and a 3.2% increase in comparable store sales over 1991 levels. Price increases were responsible for approximately one-fourth of the increase in comparable store sales. Average comparable store sales per restaurant increased to approximately \$1,354,000 in 1992. The Company opened 23 new restaurants in 1992 and 14 new restaurants in 1991. These restaurants had significantly higher average sales volumes than the average Company restaurant. New restaurants opened from 1988 through 1991 averaged \$1.6 million in sales during 1992.

Other factors which contributed to the increase in revenues were the remodeling of 26 restaurants in 1992 and 41 restaurants in 1991, and the addition of new games, rides and entertainment attractions in both years.

Revenues from franchise fees and royalties increased by 17.6% from 1991 to 1992. Franchise royalty revenue increased due to a 4.0% increase in comparable franchise store sales for restaurants open all of 1992 and 1991 and an increase in the standard royalty rate charged to franchisees from 3.4% in 1991 to 3.8% in 1992. During 1992, the Company purchased one franchise restaurant, five new franchise restaurants opened and four franchise restaurants closed.

**Costs and Expenses**

Costs and expenses as a percentage of revenues declined to 89.1% in 1992 from 89.4% in 1991.

Cost of food, beverage, prize and merchandise items as a percentage of restaurant sales decreased slightly to 18.0% in 1992 from 18.1% in 1991. This was offset by a slight increase in labor expenses as a percentage of restaurant sales to 28.0% in 1992 from 27.8% in 1991 primarily due to a federal minimum wage increase in April 1991.

Selling, general and administrative expenses as a percentage of revenues declined to 15.9% in 1992 from 16.0% in 1991 due primarily to a decrease in advertising expense as a percentage of restaurant sales between the two years.

The Company provided for a loss on property transactions of \$654,000 in 1992 and \$599,000 in 1991 primarily due to the replacement of certain assets resulting from the remodeling of restaurants, a reserve recorded in 1992 for the anticipated closing of one restaurant, and the replacement of signage arising from the name change from ShowBiz to Chuck E. Cheese's in connection with the unification of its Chuck E. Cheese's and ShowBiz concepts within certain markets in 1991.

**Operating Income**

As a result of the changes in revenues and expenses discussed above, operating income increased by 25.8% to \$25.4 million in 1992 from \$20.2 million in 1991.

**Monterey's Tex-Mex Cafe Restaurants****Revenues**

Revenues increased to \$19.1 million in 1992 from \$16.9 million in 1991 due primarily to comparable store sales increases of 8.4% and the opening of one new restaurant in 1992. Price increases were responsible for approximately one-fifth of the increase in comparable store sales.

**Costs and Expenses**

Costs and expenses declined as a percentage of revenues to 94.5% in 1992 from 96.2% in 1991.

Cost of sales increased slightly as a percentage of revenues to 61.8% in 1992 from 61.7% in 1991. The cost of food and beverage items as a percentage of restaurant sales increased slightly to 27.7% in 1992 from 27.6% in 1991 due primarily to a change in product ingredients implemented in 1992. Labor expenses as a percentage of restaurant sales increased slightly to 31.6% in 1992 from 31.5% in 1991 primarily due to a federal minimum wage increase in April 1991.

Selling, general and administrative expenses as a percentage of revenues decreased to 13.6% in 1992 from 13.9% in 1991 primarily due to a decrease in advertising expense as a percentage of restaurant sales between the two years.

Other operating expenses declined as a percentage of revenues to 11.3% in 1992 from 13.8% in 1991 primarily due to reduced insurance and repair costs.

In 1991, income of \$301,000 was recognized in provision for gains and losses on property transactions related to the selling of restaurants closed in 1989 for an amount greater than the reserve established in 1989.

**Operating Income**

Operating income increased to \$1,049,000 in 1992 from \$640,000 in 1991 due primarily to increased store sales and improved operating margins.

**Consolidated Income**

Interest expense declined to \$1.5 million in 1992 from \$2.2 million in 1991 due primarily to reductions in long-term debt of \$4.6 million in 1992 and \$5.7 million in 1991 and reduced interest rates between the two years. The Company's net income increased by 33.7% to \$15.5 million in 1992 from \$11.6 million in 1991 due to the changes in revenues and expenses discussed above. The Company's primary and fully diluted earnings per share increased to \$1.11 per share in 1992 from \$.82 per share in 1991.

*Management's Discussion and Analysis, continued***INFLATION**

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

**FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

Cash provided by operations increased to \$44.9 million in 1993 from \$44.2 million in 1992. The Company's primary requirements for cash relate to planned capital expenditures, the repurchase of the Company's common stock and debt service.

The Company plans to make capital expenditures of approximately \$40 million in 1994 primarily related to construction of approximately 25 new Chuck E. Cheese's restaurants and for the evolution of its games, rides and entertainment packages and continuing enhancements of the facilities at certain restaurants.

The Company has announced that it plans to repurchase shares of the Company's common stock at an aggregate purchase price of up to \$30 million. As of March 18, 1994, the Company has purchased shares of its common stock in the open market for an aggregate purchase price of approximately \$21.2 million. The Company expects that it will satisfy its stock repurchase plan, debt service and capital expenditure requirements from cash provided by operations and funds available under the revolving loan agreement.

In December 1993, the Company amended its revolving loan agreement up to \$50 million available through 1997. The Company is required to comply with certain financial ratio tests during the term of the revolving loan agreement. Primarily due to the purchase of shares of its common stock, borrowings under this agreement increased to \$26 million at March 18, 1994 from \$12 million at the end of 1992. The amendment to the revolving loan agreement provides the Company with greater flexibility to meet its capital requirements and repurchase shares of the Company's common stock.

The Company believes that new restaurant development will continue to be a significant factor in its ability to generate increased revenues over the foreseeable future. If the decline in comparable store sales of the Company's Chuck E. Cheese's and ShowBiz restaurants experienced in 1993 continues to be experienced over the longer term, an adverse impact on the Company's results of operations could continue.

The Company is implementing several strategies designed to strengthen the sales vitality of its existing unit base in what management believes will become an increasingly competitive market. The Company has appointed a new advertising agency; the Company has accelerated its commitment of capital to existing stores and completed 20 unit remodels in the last half of 1993 compared to five remodeled units in the first half of 1993; the Company has increased the number of its operational regional and district managers to provide a more concentrated focus on guest satisfaction; and the Company is limiting its 1994 new unit development to approximately 25 new stores in order to ensure that new unit growth and the sales vitality of the Company's existing unit base are both given equal priority. The Company believes that certain operating costs will increase as a result of implementing these strategies designed to strengthen existing unit sales.

The Company is involved in a number of lawsuits. The Company presently believes that it will continue to incur expense to defend against and resolve such litigation, and anticipates that it will satisfy such expense with cash flow from operations.

The Company believes it will realize substantial benefit from utilization of approximately \$81 million in net operating loss carryforwards to reduce federal income tax liability. Although the use of such carryforwards could, under certain circumstances, be limited, the Company is presently unaware of the occurrence of any event which would result in the imposition of such limitation. The Company has adopted an amendment to its Restated Articles of Incorporation which is intended to prevent changes in ownership of its common stock that would cause such limitation. In addition, the Company has investment tax credit, jobs tax credit and alternative minimum tax credit carryforwards of approximately \$7 million.

In 1994, the Company implemented a plan to generate targeted jobs tax credits through the hiring of qualified employees. To the extent that this program is effective, the Company expects to recognize a reduction in its income tax provision.

The Company has agreed to sell substantially all of the assets of its Monterey's Tex-Mex Cafe restaurants, subject to certain conditions and contingencies, including but not limited to the completion of due diligence and financing. The Company presently expects the transaction to be consummated in the second quarter of 1994. The expected asset purchase price consists of approximately \$6.7 million in cash, a \$4.7 million promissory note and a 12½% equity interest in the acquiring company.

*Consolidated Balance Sheets*

December 31, 1993 and January 1, 1993

(Thousands, except share data)	December 31, 1993	January 1, 1993
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$ 4,511	\$ 3,462
Accounts receivable, including receivables from related parties of \$309 and \$151, respectively.....	3,694	2,922
Current portion of notes receivable, including receivables from related parties of \$368 and \$466, respectively.....	521	587
Inventories.....	2,909	2,512
Prepaid expenses.....	2,771	2,277
Current portion of deferred tax asset.....	6,013	9,846
Total current assets.....	<u>20,419</u>	<u>21,606</u>
Investments in related parties.....	237	225
Property and equipment.....	133,007	110,377
Deferred tax asset.....	29,479	30,288
Other assets:		
Notes receivable, less current portion, including receivables from related parties of \$1,676 and \$1,732, respectively.....	2,886	2,754
Deferred charges, less amortization.....	4,357	4,585
Other.....	3,264	3,382
	<u>10,507</u>	<u>10,721</u>
	<u>\$193,649</u>	<u>\$173,217</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt, including payable to a related party of \$1,658 in 1992.....	\$ 51	\$ 1,692
Accounts payable and accrued liabilities, including payable to a related party of \$59 in 1992.....	24,762	21,578
Total current liabilities.....	<u>24,813</u>	<u>23,270</u>
Long-term debt, less current portion.....	26,846	13,397
Deferred credits.....	2,424	1,729
Other liabilities.....	1,120	959
Commitments and contingencies		
Redeemable preferred stock, \$60 par value, redeemable for \$2,974 in 2005.....	1,799	1,695
Shareholders' equity:		
Common stock, \$10 par value; authorized 30,000,000 shares; 14,282,520 and 12,965,133 shares issued, respectively.....	1,428	1,297
Capital in excess of par value.....	157,226	143,219
Retaining earnings (deficit).....	4,677	(6,872)
Deferred compensation.....	(9,934)	(666)
Less treasury shares of 1,045,984 and 211,789, respectively, at cost.....	(16,750)	(4,811)
	<u>136,647</u>	<u>132,167</u>
	<u>\$193,649</u>	<u>\$173,217</u>

See notes to consolidated financial statements.

*Consolidated Statements of Earnings*

Years ended December 31, 1993, January 1, 1993 and December 27, 1991

(Thousands, except per share data)	1993	1992	1991
Food and beverage revenues.....	\$ 197,090	\$ 183,798	\$ 152,134
Games and merchandise revenues .....	70,242	64,033	51,689
Franchise fees and royalties .....	4,321	4,863	4,134
Joint venture income .....	345	430	161
	<u>271,998</u>	<u>253,124</u>	<u>208,118</u>
Costs and expenses:			
Costs of sales.....	137,343	125,279	103,154
Selling, general and administrative expenses, including related party expenses of \$125, \$125, and \$(15), respectively .....	42,129	39,733	32,923
Depreciation and amortization .....	23,058	19,249	16,143
Provision for loss on property transactions.....	675	654	298
Other operating expenses .....	50,095	41,771	34,777
	<u>253,300</u>	<u>226,686</u>	<u>187,295</u>
Operating income .....	<u>18,698</u>	<u>26,438</u>	<u>20,823</u>
Other income (expenses):			
Interest income, including related party income of \$177, \$219, and \$127, respectively .....	346	320	271
Interest expense, including related party expense of \$99, \$376, and \$843, respectively .....	(797)	(1,508)	(2,161)
	<u>(451)</u>	<u>(1,188)</u>	<u>(1,890)</u>
Income before income taxes.....	<u>18,247</u>	<u>25,250</u>	<u>18,933</u>
Income taxes:			
Current expense.....	1,751	1,161	1,050
Deferred expense .....	4,605	8,586	6,285
	<u>6,356</u>	<u>9,747</u>	<u>7,335</u>
Net income .....	<u>\$ 11,891</u>	<u>\$ 15,503</u>	<u>\$ 11,598</u>
Earnings per common and common equivalent share:			
Primary:			
Net income .....	<u>\$ .86</u>	<u>\$ 1.11</u>	<u>\$ .82</u>
Weighted average shares outstanding.....	<u>13,455</u>	<u>13,662</u>	<u>13,700</u>
Fully diluted:			
Net income .....	<u>\$ .86</u>	<u>\$ 1.11</u>	<u>\$ .82</u>
Weighted average shares outstanding.....	<u>13,464</u>	<u>13,713</u>	<u>13,728</u>

See notes to consolidated financial statements.

*Consolidated Statements of Shareholders' Equity*

Years ended December 31, 1993, January 1, 1993 and December 27, 1991

(Thousands, except per share data)	Common Stock		Capital in Excess of Par Value	Retained Earnings (Deficit)	Deferred Compen- sation	Treasury Stock	
	Shares	Par Value				Shares	Cost
Balances, December 28, 1990.....	12,355	\$ 1,236	\$ 132,106	\$(33,291)		28	\$ (78)
Net income.....				11,598			
Redeemable preferred stock accretion.....				(103)			
Redeemable preferred stock dividends, \$4.80 per share.....				(238)			
Stock options exercised.....	172	17	523				
Stock grant plan.....	13	1	466				
Tax benefit from exercise of stock options and stock grants.....			3,330				
Stock split costs.....			(18)				
Cancellation of fractional shares.....	(2)		(49)				
Balances, December 27, 1991.....	12,538	1,254	136,358	(22,034)		28	(78)
Net income.....				15,503			
Redeemable preferred stock accretion.....				(103)			
Redeemable preferred stock dividends, \$4.80 per share.....				(238)			
Stock options exercised.....	353	35	1,324				
Warrants exercised.....	74	8	124				
Stock grant plan.....	2		1,040		\$ (999)		
Tax benefit from exercise of stock options and stock grants.....			4,436				
Treasury stock acquired.....						184	(4,733)
Amortization of deferred compensation....					333		
Stock split costs.....			(17)				
Cancellation of fractional shares.....	(2)		(46)				
Balances, January 1, 1993.....	12,965	1,297	143,219	(6,872)	(666)	212	(4,811)
Net income.....				11,891			
Redeemable preferred stock accretion.....				(104)			
Redeemable preferred stock dividends, \$4.80 per share.....				(238)			
Stock options exercised.....	48	5	573				
Warrants exercised.....	855	85	1,435				
Stock grant plan.....	414	41	12,000		(12,000)		
Tax expense from exercise of stock options and stock grants.....			(37)				
Treasury stock acquired.....						834	(11,939)
Amortization of deferred compensation....					2,732		
Stock issued under 401(k) plan.....	1		36				
Balances, December 31, 1993.....	14,283	\$ 1,428	\$ 157,226	\$ 4,677	\$(9,934)	1,046	\$(16,750)

*Consolidated Statements of Cash Flows*

Years ended December 31, 1993, January 1, 1993 and December 27, 1991

(Thousands)	1993	1992	1991
<b>Operating activities:</b>			
Net income .....	<b>\$11,891</b>	\$15,503	\$11,598
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization .....	<b>23,058</b>	19,249	16,143
Deferred income taxes .....	<b>4,605</b>	8,586	6,285
Provision for loss on property transactions.....	<b>675</b>	654	298
Compensation expense under stock grant plan .....	<b>2,756</b>	418	438
Other .....	<b>399</b>	756	230
Net change in receivables, inventory, prepaids, payables and accrued liabilities.....	<b>1,521</b>	(920)	1,105
Cash provided by operations .....	<b>44,905</b>	44,246	36,097
<b>Investing activities:</b>			
Purchases of property and equipment .....	<b>(44,600)</b>	(33,903)	(25,088)
Proceeds from disposition of property and equipment .....	<b>250</b>	-	23
Payments received on notes receivable .....	<b>978</b>	1,041	334
Additions to notes receivable .....	<b>(724)</b>	(928)	(2,903)
Change in deferred charges, investments and other assets .....	<b>(1,813)</b>	(2,082)	(1,470)
Cash used in investing activities.....	<b>(45,909)</b>	(35,872)	(29,104)
<b>Financing activities:</b>			
Proceeds from line of credit .....	<b>24,050</b>	16,650	6,270
Payments on line of credit .....	<b>(10,550)</b>	(8,650)	(5,970)
Reduction of debt and capital lease obligations, including payments to related parties of \$1,658, \$6,447 and \$5,301, respectively .....	<b>(1,692)</b>	(12,231)	(7,168)
Redeemable preferred stock dividends .....	<b>(238)</b>	(238)	(238)
Acquisition of treasury stock.....	<b>(11,939)</b>	(4,733)	-
Exercise of stock options and warrants, including exercise by a related party of \$1,488 and \$130 in 1993 and 1992, respectively .....	<b>2,098</b>	1,491	540
Other .....	<b>324</b>	80	263
Cash used in financing activities .....	<b>2,053</b>	(7,631)	(6,303)
Increase in cash and cash equivalents .....	<b>1,049</b>	743	690
Cash and cash equivalents, beginning of year.....	<b>3,462</b>	2,719	2,029
Cash and cash equivalents, end of year.....	<b>\$ 4,511</b>	\$ 3,462	\$ 2,719

See notes to consolidated financial statements.



*Notes to Consolidated Financial Statements**Years ended December 31, 1993, January 1, 1993 and December 27, 1991***1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:****Operations:**

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

**Fiscal year:**

The Company's fiscal year is 52 or 53 weeks and ends on the Friday nearest December 31. References to 1993, 1992 and 1991 are for the fiscal years ended December 31, 1993, January 1, 1993 and December 27, 1991, respectively. 1992 was 53 weeks in length, while 1993 and 1991 were each 52 weeks in length.

**Basis of consolidation:**

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

**Cash and cash equivalents:**

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

**Inventories:**

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

**Property and equipment, depreciation and amortization:**

Property and equipment are stated at cost. Depreciation and amortization are provided by charges to operations over the estimated useful lives of the assets by the straight-line method.

**Deferred charges and related amortization:**

Deferred charges include noncompetition and consulting agreements which are amortized over six years. Loan costs are deferred and amortized over the term of the respective agreements. Franchise rights are amortized over the remaining life of the franchise agreements. Preopening costs are amortized over a two year period. Other deferred charges are amortized over various periods up to five years. All amortization is provided by the straight-line method.

**Franchise fees and royalties:**

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

**Common stock:**

All share and per share amounts have been adjusted to give effect to three-for-two stock splits effected on March 20, 1992 and March 26, 1991.

**Earnings per share:**

Earnings per share are computed on the weighted average number of shares outstanding for each of the fiscal years presented.

**Reclassifications:**

Certain reclassifications of 1992 and 1991 amounts have been made to conform to the 1993 presentation.

**2. ACCOUNTS RECEIVABLE:**

	1993	1992
	(thousands)	
Trade .....	\$ 309	\$ 315
Other .....	3,651	2,757
	<u>3,960</u>	<u>3,072</u>
Less allowance for doubtful collection .....	(266)	(150)
	<u>\$3,694</u>	<u>\$ 2,922</u>

**3. NOTES RECEIVABLE:**

The Company's notes receivable at December 31, 1993 and January 1, 1993 arose principally as a result of the sale of restaurants, advances to franchisees, joint ventures and managed properties and lines of credit established with the International Association of ShowBiz Pizza Time Restaurants, Inc., a related party (Note 18). The notes have various terms, but most are payable in monthly installments of principal and interest through 1997, with interest rates ranging from prime to 13.5%. Substantially all notes are collateralized by the related property and equipment. Balances of notes receivable are net of an allowance for doubtful collection of \$320,000 at January 1, 1993. There is no allowance at December 31, 1993.

## Notes to Consolidated Financial Statements, continued

Years ended December 31, 1993, January 1, 1993 and December 27, 1991

**4. PROPERTY AND EQUIPMENT:**

	1993	1992
	(thousands)	
Land and improvements .....	\$ 5,538	\$ 5,538
Leasehold improvements.....	109,445	91,561
Buildings and improvements ..	9,061	9,061
Furniture, fixtures and equipment.....	80,562	60,918
Property leased under capital leases (Note 7) .....	1,486	1,486
	<u>206,092</u>	<u>168,564</u>
Less accumulated depreciation and amortization .....	(77,142)	(62,422)
	<u>128,950</u>	<u>106,142</u>
Construction in progress .....	4,057	4,235
	<u>\$133,007</u>	<u>\$110,377</u>

**5. DEFERRED CHARGES:**

	1993	1992
	(thousands)	
Franchise rights.....	\$5,000	\$ 5,000
Preopening costs.....	4,088	3,057
Loan costs.....	370	1,322
Information system development costs .....		1,369
Consulting contracts .....	643	643
Other .....	563	983
	<u>10,664</u>	<u>12,374</u>
Less accumulated amortization ..	(6,307)	(7,789)
	<u>\$4,357</u>	<u>\$4,585</u>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:**

	1993	1992
	(thousands)	
Accounts payable .....	\$10,683	\$ 7,691
Salaries and wages .....	3,367	5,011
Insurance.....	6,291	4,619
Taxes, other than income .....	2,941	2,300
Other .....	1,480	1,957
	<u>\$24,762</u>	<u>\$21,578</u>

**7. LEASES:**

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

Following is a summary of property leased under capital leases:

	1993	1992
	(thousands)	
Land and buildings .....	\$1,486	\$1,486
Less accumulated depreciation ..	(735)	(619)
	<u>\$ 751</u>	<u>\$ 867</u>

Scheduled annual maturities of the obligations for capital and operating leases as of December 31, 1993, are:

Years	Capital	Operating
	(thousands)	
1994.....	\$ 323	\$ 26,199
1995.....	325	26,377
1996.....	342	25,543
1997.....	342	23,187
1998.....	306	19,939
1999-2008 (aggregate payments) ..	1,580	74,050
Minimum future lease payments ..	3,218	\$195,295
Less amounts representing interest .....	(1,821)	
Present value of future minimum lease payments ....	1,397	
Less current portion .....	(51)	
	<u>\$1,346</u>	

**Rent Expense:**

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

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

	1993	1992	1991
	(thousands)		
Minimum.....	\$25,305	\$20,485	\$17,530
Contingent.....	185	525	389
	<u>\$25,490</u>	<u>\$21,010</u>	<u>\$17,919</u>

**8. LONG-TERM DEBT:**

	1993	1992
	(thousands)	
Revolving bank loan, at prime or LIBOR plus 1.0% due December 1997 .....	<b>\$25,500</b>	\$12,000
Term loans payable to related parties, at prime, paid December 1993 (Note 18) ...		1,658
Obligations under capital leases (Note 7) .....	<b>1,397</b>	1,431
	<b>26,897</b>	15,089
Less current portion .....	<b>(51)</b>	(1,692)
	<b>\$26,846</b>	\$13,397

The Company's revolving loan agreement was amended in December 1993 to provide the Company with a credit line of up to \$50 million which declines to \$45 million on December 31, 1995 and \$40 million on December 31, 1996 and is due on December 31, 1997. Interest is provided at a rate equal to prime, 6.0% at December 31, 1993, or, at the Company's option, up to the 60 day London Interbank Offered Rate ("LIBOR"), 3.25% at December 31, 1993, plus .75% to 1.25% subject to compliance with certain financial ratio tests. A 1/5% annual commitment fee is payable on any unused credit line.

Under the terms of the revolving loan agreement, the Company is prohibited from paying dividends on its common stock and must achieve certain profitability levels.

In November 1992, the Company redeemed its floating rate subordinated bonds, payable at prime and due in July 1993, in the aggregate principal amount of \$6,313,300. Approximately \$4.8 million of the floating rate subordinated bonds were held by The Hallwood Group, Incorporated ("Hallwood"), a related party.

In December 1993, the Company paid approximately \$1.7 million in a term loan payable to Integra - A Hotel and Restaurant Company ("Integra"), a related party.

The Company has a substantial portion of its assets pledged as collateral for the bank loan, including \$3,407,000 in notes receivable and property and equipment owned with a net book value of \$70,821,000.

**9. COMMITMENTS AND CONTINGENCIES:**

The Company has guaranteed certain obligations related to restaurant building and equipment leases. The underlying assets are collateral for the leases and the

makers or assignees of all of the obligations are required to perform thereunder before the Company is required to fulfill its guarantee. In the event of default by the maker or assignee, the Company, in almost all cases, may make payment under the guarantees in accordance with the original payment schedule and has the right to locate potential buyers or subtenants for the assets. As of December 31, 1993, such guarantees aggregated approximately \$ 1,669,000.

**10. LITIGATION:**

The Company has been named a defendant in litigation brought by plaintiffs as individuals and as representatives of a purported class who are holders of securities issued by Integra, which has sought protection from creditors under Chapter 11 of the Federal Bankruptcy Code. This suit has alleged that the Company, Integra and Hallwood violated state securities' laws, committed common law fraud and breached fiduciary duties to the plaintiffs in connection with the Integra securities acquired by the plaintiffs from 1986 through 1988 and that the 1988 Integra distribution of 90% of the common stock of the Company to holders of Integra common stock constituted a fraudulent transfer under Texas law. The plaintiffs have sought actual damages in an amount equal to the alleged loss of value of their Integra securities, rescission of the Company's 1988 spin-off and punitive damages.

In July 1992, Integra sought protection from its creditors under Chapter 11 of the Federal Bankruptcy Code in the United States Bankruptcy Court ("Bankruptcy Court") in Denver, Colorado (the "Integra Bankruptcy"). Integra, its Bankruptcy Court-appointed Unsecured Creditors Committee, Hallwood and other parties including certain of the Company's officers and directors and the individual plaintiffs in the lawsuit discussed above, are parties to either one or both Settlement Agreements (the "Settlement Agreements") in conjunction with a modified plan of reorganization of Integra approved by the Bankruptcy Court in February 1994. One of the Settlement Agreements provides for the creation of a trust to which certain claims of Integra are to be transferred. The trust will retain the right to investigate, compromise or adjudicate the claims transferred from Integra against defendants other than the parties released under the Settlement Agreements. The Company and many of its shareholders are not parties to the Settlement Agreements.

The Company has been named a defendant in litigation brought by the trustee of a municipal bond issuance made in 1980 upon which Integra executed a guaranty. The

*Notes to Consolidated Financial Statements, continued*

Years ended December 31, 1993, January 1, 1993 and December 27, 1991

plaintiff in this suit has alleged that Integra's guaranty of the municipal bond issuance was binding on successors of Integra and that the Company is a legal successor to Integra. The plaintiff in this action seeks to recover judgment in the full amount of its claim against Integra.

The Company is a nominal defendant in a shareholders' derivative action in which three of the Company's executive officers, four of the Company's outside directors and Hallwood were named defendants. The plaintiffs in this lawsuit have alleged the individual defendants breached fiduciary duties to shareholders and unjustly enriched themselves as a result of alleged violations of federal securities laws. The plaintiffs in this action have sought unspecified damages.

The Company has also been named a defendant in a suit brought by a former landlord alleging that the Company breached a restaurant lease, which the Company contends it has rightfully terminated.

The Company presently believes that the ultimate resolution of these lawsuits will not have a material adverse impact on the Company. Certain other suits are pending against the Company which involve claims for damages which are not material and which have arisen in the ordinary course of business.

**11. REDEEMABLE PREFERRED STOCK:**

As of December 31, 1993, the Company had 49,570 shares of its redeemable preferred stock authorized and outstanding. The stock pays dividends at \$4.80 per year, subject to a minimum cash flow test. As of December 31, 1993, one quarterly dividend, totaling \$59,484 or \$1.20 per share, was accrued but not yet paid. The redeemable preferred stock has been recorded at the net present value and is being accreted on the straight-line basis. The Company's restated articles of incorporation provide for the redemption of such shares at \$60 per share in 2005. During the continuation of any event of default by the Company, the preferred shareholders shall be able to elect a majority of the directors of the Company.

**12. EARNINGS PER COMMON SHARE:**

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

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

	1993	1992	1991
Net income .....	\$11,891	\$15,503	\$11,598
Accretion of redeemable preferred stock .....	(104)	(103)	(103)
Redeemable preferred stock dividends .....	(238)	(238)	(238)
Adjusted income applicable to common shares .....	\$11,549	\$15,162	\$11,257
Primary:			
Weighted average common shares outstanding .....	12,816	12,666	12,448
Common stock equivalents:			
Stock purchase warrants .....	426	839	840
Other .....	213	157	412
Weighted average shares outstanding ..	13,455	13,662	13,700
Earnings per common and common equivalent share ..	\$ .86	\$ 1.11	\$ .82
Fully diluted:			
Weighted average common shares outstanding .....	12,816	12,666	12,448
Common stock equivalents:			
Stock purchase warrants ....	426	852	852
Other .....	222	195	428
Weighted average shares outstanding	13,464	13,713	13,728
Earnings per common and common equivalent share ..	\$ .86	\$ 1.11	\$ .82

## 13. FRANCHISE FEES AND ROYALTIES:

At December 31, 1993, 110 Chuck E. Cheese's and ShowBiz restaurants were operated by a total of 58 different franchisees. The standard franchise agreements grant to the franchisee the right to develop and operate a restaurant and use the associated trade names, trademarks, and service marks within the standards and guidelines established by the Company.

Initial franchise fees included in revenues were \$82,500, \$197,000 and \$112,500 in 1993, 1992 and 1991, respectively.

## 14. COSTS OF SALES:

	1993	1992	1991
	(thousands)		
Food, beverage and related supplies..	\$ 48,435	\$ 45,881	\$ 38,629
Games and merchandise.....	11,375	10,202	8,972
Labor .....	77,533	69,196	55,553
	<u>\$137,343</u>	<u>\$ 125,279</u>	<u>\$103,154</u>

## 15. INCOME TAXES:

The significant components of income tax expense are as follows:

	1993	1992	1991
	(thousands)		
Current expense .....	\$1,751	\$1,161	\$1,050
Deferred expense:			
Benefits of operating loss carryforwards ....	6,078	4,441	3,145
Tax benefits (expense) from exercise of stock options and stock grants .....	(37)	4,436	3,330
Increase in valuation of deferred tax asset ....	(971)		
Tax credits.....	(465)	(291)	(190)
	<u>\$6,356</u>	<u>\$9,747</u>	<u>\$7,335</u>

In August 1993, new federal tax legislation was enacted that increased the Company's federal tax rate to 35% effective January 1, 1993. As a result, the Company's deferred tax asset and net income were increased by approximately \$971,000 and deferred tax expense decreased in the same amount.

The Company's deferred tax asset of approximately \$35.5 million at December 31, 1993 is primarily due to a \$28.3 million tax effect of \$81.0 million unused net operating loss carryforwards ("NOL's"), \$7.0 million in tax credit carryforwards and tax effected net taxable temporary differences of \$200,000 all of which the Company expects to realize in future years. No valuation allowance is required.

As of December 31, 1993, the Company has NOL's of approximately \$81.0 million for federal income tax purposes. While the Company believes that it is likely that it will realize these carryforwards, there can be no assurance that they will be available to such extent. In addition, as of December 31, 1993, the Company has investment tax credit and jobs tax credit carryforwards totaling \$5,258,000 and \$489,000, respectively, and alternative minimum tax credits of \$1,235,000.

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

Years	Amount	
	NOL's	Tax Credit
	(thousands)	
1997 .....		\$1,104
1998 .....		4,007
1999 .....	\$46,000	395
2000 .....	20,000	149
2001 .....	14,000	19
2002 - 2008 .....	1,000	73
	<u>\$81,000</u>	<u>\$5,747</u>

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

Current tax laws and regulations relating to substantial changes in control may limit the utilization of net operating loss and tax credit carryforwards in any one year. As of December 31, 1993, no limitation of such carryforwards has occurred.

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

	1993	1992	1991
Statutory rate .....	35.0%	34.0%	34.0%
State income taxes.....	5.1%	4.6%	4.7%
Increase in valuation of deferred tax asset.....	(5.3%)		
Income taxes provided .....	<u>34.8%</u>	<u>38.6%</u>	<u>38.7%</u>

*Notes to Consolidated Financial Statements, continued*

Years ended December 31, 1993, January 1, 1993 and December 27, 1991

**16. FAIR VALUE OF FINANCIAL INSTRUMENTS:**

The Company has certain financial instruments consisting primarily of cash, cash equivalents, notes receivable, notes payable and redeemable preferred stock. The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of those instruments. The fair values of the Company's notes receivable, notes payable and redeemable preferred stock are estimated based on the interest rates charged on instruments with similar terms and risks. The estimated fair value of the Company's redeemable preferred stock is \$3.0 million. The carrying values of all other financial instruments approximate the fair values.

**17. SUPPLEMENTAL CASH FLOW INFORMATION:**

	1993	1992	1991
	(thousands)		
Cash paid during the year for:			
Interest .....	\$ 912	\$1,416	\$1,923
Income taxes .....	1,769	935	1,253
Supplemental schedule of noncash investing and financing activities:			
Notes receivable and other assets cancelled in connection with the acquisition of property and equipment .....		24	1,049
Liabilities assumed or incurred in connection with the acquisition of property and equipment		674	675
Notes received in connection with the disposition of property and equipment .....			350

**18. RELATED PARTY TRANSACTIONS:**

Hallwood is the beneficial owner of 15.3% of the outstanding common stock of the Company. The directors of Hallwood serve as a majority of the directors of the Company and Integra.

In 1991, the Company prepaid term loans to Hallwood of approximately \$4.9 million. In February 1992, the Company prepaid \$1,583,000 in a term loan payable to Hallwood which had been assigned to them by Integra. In

December 1993, the Company fully repaid approximately \$1.7 million in a term loan payable to Integra.

In November 1992, the Company redeemed \$4,768,300 in floating rate subordinated bonds held by Hallwood.

The Company made annual payments to Hallwood of \$125,000 for consulting services in 1993, 1992 and 1991. In addition, the Company made interest payments to Hallwood of \$261,000 and \$541,000 in 1992 and 1991, respectively. In consideration for rent reductions resulting from Hallwood's negotiation of the Company's home office lease agreement in December 1990, the Company assigned to Hallwood its sublease interest in the home office building subleased to Integra with a fair value of approximately \$120,000 per year.

The Company received \$140,000 for shared costs from Integra in 1991. The Company paid \$99,000, \$115,000 and \$302,000 in interest to Integra for 1993, 1992 and 1991, respectively. The Company had a payable to Integra for interest of \$59,000 at January 1, 1993.

In 1993 and 1992, Hallwood and its affiliate exercised warrants to purchase 835,873 and 73,263 shares of common stock, respectively. The exercise price of the warrants was \$1.78 per share.

During 1993, 1992 and 1991, the Company advanced \$30,000, \$437,000 and \$1,491,000, respectively, to joint ventures in which the Company has a 50% interest or less. Principal and interest are payable in monthly installments, with interest at various rates from prime to 12%. The Company also has miscellaneous accounts receivable from the joint ventures of approximately \$279,000 and \$108,000 at December 31, 1993 and January 1, 1993, respectively.

In September 1990, the Company entered into an agreement to grant the International Association of ShowBiz Pizza Time Restaurants, Inc. (the "Association") a \$2.0 million line of credit, at prime, which allowed the Association to accelerate the conversion of all robotic characters into Chuck E. Cheese's characters and to begin improvements to existing Chuck E. Cheese's characters. In December 1993, the Company granted the Association a \$1.0 million line of credit, at prime, for advertising production. The Association was established to develop and improve entertainment attractions and produce system-wide advertising. Three officers of the Association are also officers of the Company. At December 31, 1993, \$1,039,000 was outstanding under these lines of credit. The Company also had a miscellaneous account receivable from the Association of \$30,000 and \$43,000 at December 31, 1993 and January 1, 1993, respectively.

## 19. EMPLOYEE BENEFIT PLANS:

The Company has employee benefit plans that include: a) executive bonus compensation plans based on the performance of the Company and certain of its senior officers; b) a non-statutory stock option plan; and, c) a stock grant plan.

In 1993, the number of shares of the Company's common stock which may be issued under the stock option plan was increased by 250,000 shares to an aggregate of 1,348,025 shares. All shares must be granted before December 31, 1998. The exercise price for options granted under the plan may not be less than the fair market value of the Company's common stock at date of grant. Options may not be exercised until the employee has been continuously employed at least one year after the date of grant. Options which expire or terminate may be regranted under the plan.

	1993	1992	1991
Options outstanding,			
beginning of year.	276,297	445,388	504,618
Granted .....	158,800	162,030	82,050
Exercised.....	(47,885)	(321,369)	(136,105)
Terminated ....	(14,550)	(9,752)	(5,175)
Options outstanding,			
end of year			
(\$2.45-\$33.50			
per share) .....	372,662	276,297	445,388
Options:			
Exercisable .....	261,490	114,267	363,338
Available for grant..	357,558	251,808	154,087

The options granted in 1993 are at exercise prices ranging from \$15.75 to \$33.50 per share. In January 1994, the Stock Option Committee of the Board of Directors granted 244,500 additional options at an exercise price of \$13.75 per share, subject to the surrender of certain options granted in 1993.

In 1993, the number of shares of the Company's common stock which may be awarded to senior executives of the Company under the stock grant plan was increased by 414,508 shares to an aggregate of 1,145,758 shares of the Company's common stock. An aggregate of 414,508

shares and 15,300 shares were awarded pursuant to the plan in 1993 and 1991, respectively. None were awarded in 1992. Compensation expense recognized by the Company pursuant to this plan was \$2,756,000, \$418,000, and \$438,000, in 1993, 1992, and 1991, respectively. All shares are subject to forfeiture upon termination of the participant's employment by the Company over vesting periods ranging from 2 years to 6 years. The shares are nontransferable during the vesting periods.

As a result of shares awarded to the Company's Chairman of the Board and Chief Executive Officer, the Company recognized deferred compensation of \$12.0 million and \$999,000 in 1993 and 1992, respectively. The deferred compensation is amortized over the compensated periods of service through 1997.

In January 1992, the Board of Directors accelerated the vesting provisions of 350,955 shares of common stock granted in 1989 to the Company's Chairman of the Board and Chief Executive Officer. Concurrently, 112,053 shares were surrendered to the Company to satisfy federal income tax withholding obligations. As of December 31, 1993, 116,990 shares remain in an irrevocable trust to secure his continuing obligations to the Company under his employment and consulting agreements.

The Company has adopted the ShowBiz 401(k) Retirement and Savings Plan, to which it may at its discretion make an annual contribution out of its current or accumulated earnings of up to the lesser of 50% of employee contributions or \$750 per employee. Contributions by the Company may be made in the form of its common stock or in cash. In 1993, the Company made a contribution of approximately \$36,000 in common stock for the 1992 plan year. No contributions were made in 1991 or are anticipated to be made for 1993.

## 20. SUBSEQUENT EVENT:

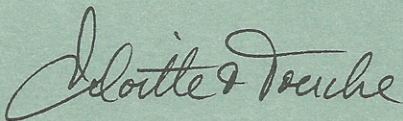
The Company has agreed to sell substantially all of the assets of its Monterey's Tex-Mex Cafe restaurants, subject to certain conditions and contingencies, including but not limited to the completion of due diligence and financing. The Company presently expects the transaction to be consummated in the second quarter of 1994. If the transaction is consummated, the Company expects to realize a gain.

*Independent Auditors' Report***Board of Directors and Shareholders****ShowBiz Pizza Time, Inc.****Irving, Texas**

We have audited the accompanying consolidated balance sheets of ShowBiz Pizza Time, Inc. and subsidiary as of December 31, 1993 and January 1, 1993 and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years (52 or 53 weeks) in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ShowBiz Pizza Time, Inc. and subsidiary as of December 31, 1993 and January 1, 1993 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.



DELOITTE &amp; TOUCHE

Dallas, Texas

March 18, 1994



**OFFICERS**

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

J. Terry Spaight  
*President*  
*Chief Operating Officer*

Richard T. Huston  
*Executive Vice President/Marketing*

Michael H. Magusiak  
*Chief Financial Officer*  
*Executive Vice President*  
*Treasurer*

Woodrow Berry  
*Senior Vice President/Operations*

Gene Cramm  
*Senior Vice President/Entertainment and Games*

Daniel J. Watson  
*Senior Vice President/Development*

Bernard J. Yanelli  
*Senior Vice President/Strategic Planning*

John Artope  
*Vice President/Real Estate*

John Gregory Barton  
*Regional Vice President/Operations*

John Roger Cardinale  
*Vice President/Purchasing*

Mathew P. Drennan  
*Regional Vice President/Operations*

Mark Antonio Flores  
*Regional Vice President/Operations*

Ronald L. Hake  
*Vice President/Franchise Operations*

James M. Newberry  
*Vice President/Special Projects*

Ahmet Oner  
*Vice President/Management Information Systems*

Paul K. Scapecchi  
*Regional Vice President/Operations*

Odom Sherman, Jr.  
*Vice President/Tax*

Jan A. Wilhelm  
*Vice President/Risk Management*

**BOARD OF DIRECTORS**

Charles A. Crocco, Jr.  
*Partner - Lunney, Crocco, DeMaio, Camandella*

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

Anthony Gumbiner  
*Chairman & Chief Executive Officer*  
*The Hallwood Group Incorporated*

Robert L. Lynch  
*Vice Chairman*  
*The Hallwood Group Incorporated*

Michael H. Magusiak  
*Chief Financial Officer*  
*Executive Vice President*  
*Treasurer*

Thomas J. Talbot  
*The Talbot Company*

Brian M. Troup  
*President & Chief Operating Officer*  
*The Hallwood Group Incorporated*

*Corporate Information*

**EXECUTIVE OFFICES**

4441 W. Airport Freeway  
P.O. Box 152077  
Irving, Texas 75015  
214/258-8507

**ANNUAL SHAREHOLDER MEETING**

Thursday, June 2, 1994  
9:00 A.M.  
Chuck E. Cheese's  
3903 W. Airport Freeway  
Irving, Texas 75062

**INDEPENDENT AUDITORS**

Deloitte & Touche  
2200 Ross Avenue  
Suite 1600  
Dallas, Texas 75201

**STOCK TRANSFER AGENT & REGISTRAR**

The First National Bank of Boston  
150 Royall Street  
Canton, Massachusetts 02021  
617/575-2900

**STOCK LISTING**

The Company's common stock is traded on the NASDAQ National Market System under the symbol "SHBZ".

**10-K AVAILABILITY**

The Company will furnish to any stockholder, without charge, a copy of the Company's annual report filed with the Securities and Exchange Commission on Form 10-K for the 1993 fiscal year (including the financial statements and schedules thereto) upon written request from the stockholder addressed to:

Secretary  
ShowBiz Pizza Time, Inc.  
4441 West Airport Freeway  
P.O. Box 152077  
Irving, Texas 75015



ShowBiz Pizza Time, Inc.  
4441 West Airport Freeway  
P.O. Box 152077  
Irving, Texas 75015  
214/258-8507

# SHOWBIZ PIZZA TIME, INC. 1993 ANNUAL REPORT

Date of Origin: 1994  
Archived: 3-9-23  
Submission by VegaNova  
Version 1.0

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