

SCHEDULE 13D

(Amendment No. 6)

Under the Securities Exchange Act of 1934

DISCOVERY ZONE, INC.  
(Name of Issuer)

Common Stock, Par Value \$.01 Per Share  
(Title of Class of Securities)

25468B 10 7  
(CUSIP Number)

Philippe P. Dauman, Esq.  
Viacom Inc.  
1515 Broadway  
New York, New York 10036  
Telephone: (212) 258-6000  
(Name, Address and Telephone Number of  
Person Authorized to Receive Notices and  
Communications)

Copy to:

Creighton O' M. Condon, Esq.  
Shearman & Sterling  
599 Lexington Avenue  
New York, NY 10022  
Telephone: (212) 848-4000

April 17, 1995  
(Date of Event which Requires Filing of this Statement)

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If the filing person has previously filed a statement on  
Schedule 13G to report the acquisition which is the subject  
of this Schedule 13D, and is filing this schedule because of  
Rule 13d-1(b)(3) or (4), check the following box [ ].  
Check the following box if a fee is being paid with this  
statement [ ].

Page 1

CUSIP No. 25468B 10 7

(1) Name of Reporting Person  
S.S. or I.R.S. Identification No. of Above Person

VIACOM INC.  
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I.R.S. Identification No. 04-2949533  
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(2) Check the Appropriate Box if a Member of Group (See  
Instructions)

[ ] (a) -----

[ ] (b) -----

(3) SEC Use Only -----  
-----

(4) Sources of Funds (See Instructions) -----  
-----

(5) Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e).  
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(6) Citizenship or Place of Organization Delaware -----  
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Number of (7) Sole Voting Power -----  
Shares -----

Beneficially (8) Shared Voting Power 24,220,354 -----

Owned by -----  
Each (9) Sole Dispositive  
Power -----

Reporting -----  
Person (10) Shared Dispositive Power 24,220,354 -----  
With -----

(11) Aggregate Amount Beneficially Owned by Each Reporting Person  
24,220,354 -----

(12) Check if the Aggregate Amount in Row (11) Excludes Certain  
Shares (See Instructions) -----  
-----

(13) Percent of Class Represented by Amount in Row (11) -----  
49.6% -----

(14) Type of Reporting Person (See Instructions) CO -----  
-----

CUSIP No. 25468B 10 7

(1) Name of Reporting Person  
S.S. or I.R.S. Identification No. of Above Person

SUMNER M. REDSTONE

S.S. No.

(2) Check the Appropriate Box if a Member of Group (See Instructions)

[ ] (a)

[ ] (b)

(3) SEC Use Only

(4) Sources of Funds (See Instructions)

(5) Check if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e).

(6) Citizenship or Place of Organization United States

Number of (7) Sole Voting Power

Shares

Beneficially (8) Shared Voting Power 24,220,354

Owned by

Each (9) Sole Dispositive Power

Reporting

Person (10) Shared Dispositive Power 24,220,354

With

(11) Aggregate Amount Beneficially Owned by Each Reporting Person  
24,220,354

(12) Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)

(13) Percent of Class Represented by Amount in Row (11)

49.6%

(14) Type of Reporting Person (See Instructions) IN



This Amendment No. 6 amends the Statement on Schedule 13D filed with the Securities and Exchange Commission on June 3, 1993, as amended (the "Statement") by Sumner M. Redstone and Viacom Inc. ("Viacom"). This Amendment No. 6 is filed with respect to the shares of common stock, par value \$.01 per share (the "Common Stock"), of Discovery Zone, Inc., a Delaware corporation (the "Issuer"), with its principal offices located at 205 North Michigan Avenue, Chicago, Illinois 60601. Capitalized terms used but not defined herein have the meanings assigned to such terms in the Statement.

Item 2. Identity and Background.  
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Item 2 is hereby amended and supplemented to reflect changes in the directors and executive officers of Viacom as set forth on Schedule I attached hereto. Schedule I sets forth the following information with respect to each such person:

(i) name;

(ii) business address (or residence where indicated); and

(iii) present principal occupation or employment and the name, principal business and address of any corporation or other organization in which such employment is conducted.

All of the directors and executive officers of Viacom are citizens of the United States.

During the last five years, neither Viacom nor any person named in Schedule I attached hereto (including Sumner M. Redstone) has been convicted in a criminal proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

Item 4. Purpose of Transaction.  
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Item 4 of the Statement is hereby amended and supplemented as follows:

Viacom and Blockbuster Entertainment Group, a division of Viacom ("Blockbuster"), have entered into a five-year Management Services Agreement dated April 17, 1995 (the "Management Services Agreement") with the Issuer. Blockbuster has agreed to assume the management of the operational and administrative functions of the Issuer, subject to certain closing conditions. Blockbuster will be reimbursed for the costs and expenses incurred in the provision of management services to the Issuer, and the Issuer will issue to Viacom, on the effective date of the Management Services Agreement, warrants (the "Warrants") to purchase an aggregate of 473,463 shares of a new class of noncumulative convertible voting participating preferred stock (the "Preferred Stock") of the Issuer.

The Warrants will be divided into three classes, Series A Warrants, Series B Warrants and Series C Warrants, which will be exercisable for an equal number of shares of Preferred Stock, will vest on the first, second and third anniversaries of the effective date of the Management Services Agreement and, except under certain circumstances, will not be exercisable until December 16, 1998. Each share of Preferred Stock issuable upon exercise of the Warrants will have a liquidation preference of \$.10 per share, will be entitled to noncumulative dividends in an amount equal to the greater of (x) 5% of the liquidation preference per share, when, as and if declared by the board of directors of the Issuer and (y) a pro rata share of the dividends paid with respect to the Common Stock (based on the number of shares of Common Stock the Preferred Stock is convertible into), will vote with the Common Stock as one class on all matters submitted to the stockholders of the Issuer (based on the number of shares of Common Stock the Preferred Stock is convertible into) and will automatically convert into 24 shares of Common Stock, subject to adjustment, immediately but only following a sale of the Preferred Stock to a person unaffiliated with Viacom. The exercise prices for the Series A Warrants, Series B Warrants and Series C Warrants per share of the Common Stock into which the Preferred Stock is convertible are \$10.375, \$11.931 and \$14.317, respectively.

In addition, the non-Viacom directors of the Issuer other than Donald F. Flynn have agreed to resign on the effective date of the Management Services Agreement and the Issuer's current directors have agreed to cause nominees designated by Viacom to be appointed to Issuer's board of directors. Donald F. Flynn has resigned as Chief Executive Officer of the Issuer and Steven R. Berrard, the Chief Executive Officer of Blockbuster, has been appointed interim Chief Executive Officer of the Issuer.

Pursuant to a Stock Purchase Agreement dated as of April 17, 1995 (the "Stock Purchase Agreement") among DKB, Inc., Kevin F. Flynn June, 1992 Non-Exempt Trust and Brian J. Flynn June, 1992 Non-Exempt Trust, as sellers (the "Sellers"), Donald F. Flynn, Kevin F. Flynn and Brian J. Flynn, as guarantors, and Viacom and its indirect wholly owned subsidiary Blockbuster Discovery Investment, Inc. ("BDI"), as purchasers (the "Purchasers"), subject to regulatory and other closing conditions, (i) Viacom, through BDI, has agreed to purchase 3,818,649 shares of Common Stock at a price of \$6.50 per share from the Sellers, following the exercise by the Sellers of warrants to acquire shares of Common Stock, (ii) in order to allow the Purchasers to maintain their ownership percentage of Common Stock at 49.99%, the Sellers have agreed to grant to the Purchasers a two-year option to acquire up to 2,210,695 shares of Common Stock at a price equal to 75% of their market price; provided, however, -----  
that such price shall never be less than \$6.50 or more than \$12.50 per share, and (iii) the Sellers have agreed to grant to the Purchasers a two-year right of first offer covering an additional 1,205,156 shares of Common Stock. Following the acquisition of the shares of Common Stock by the Sellers, upon exercise of their warrants, and the purchase of the 3,818,649 shares of Common Stock pursuant to the Stock Purchase Agreement, Viacom will own approximately 49% of the outstanding Common Stock, based upon the number of shares of Common Stock outstanding as of April 17, 1995.

Pursuant to a letter agreement dated April 17, 1995 (the "Letter Agreement") among the Issuer, Blockbuster Family Fun, Inc. and Family Entertainment Centers, Inc., the Issuer has agreed to acquire, subject to regulatory and other conditions, the assets of two entertainment centers currently operated under the "Block Party" name and mark from subsidiaries of Viacom for the lesser of the cost of the entertainment centers and \$15,000,000, payable in ten year subordinated notes of the Issuer.

A copy of the press release issued by the Issuer on April 17, 1995 relating to the foregoing transactions, the Management Services Agreement, the Stock Purchase Agreement and the Letter Agreement are attached hereto as exhibits and are incorporated herein by reference.

Item 5. Interest in Securities of the Issuer.  
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See Item 4 for information which may be required by this Item 5.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect  
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to Securities of the Issuer.  
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See Item 4 for information which may be required by this Item 6.

Item 7. Material to be Filed as Exhibits.  
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- A. Management Services Agreement dated April 17, 1995, among the Issuer, Blockbuster and Viacom.
- B. Stock Purchase Agreement dated as of April 17, 1995 among DKB, Inc., Kevin F. Flynn June, 1992 Non-Exempt Trust and Brian J. Flynn June, 1992 Non-Exempt Trust, as sellers, Donald F. Flynn, Kevin F. Flynn and Brian J. Flynn, as guarantors, and Viacom and BDI, as purchasers.
- C. Letter Agreement dated April 17, 1995 among the Issuer, Blockbuster Family Fun, Inc. and Family Entertainment Centers, Inc.
- D. Press release issued by the Issuer on April 17, 1995.

Signature

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After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this Statement is true, complete and correct.

April 18, 1995

VIACOM INC.

By /s/ Michael D. Fricklas

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Name: Michael D. Fricklas  
Title: Senior Vice President  
and Deputy General Counsel

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Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Statement is true, complete and correct.

April 18, 1995

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Sumner M. Redstone, Individually

\*By /s/ Philippe P. Dauman

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Philippe P. Dauman  
Attorney-in-Fact under the  
Limited Power of Attorney filed  
as Exhibit 99.2 to the Statement,  
Amendment No. 4.

Schedule I

Executive Officers

Name	Business or Residence Address	Principal Occupation or Employment	Name and Address of Corporation or Other Organization in Which Employed
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Sumner M. Redstone*	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Chairman of the Board of Viacom Inc. and Viacom International Inc.; Chairman of the Board and President, Chief Executive Officer of National Amusements Inc.	National Amusements, Inc. 200 Elm Street Dedham, MA 02026 Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
H. Wayne Huizenga*	Blockbuster Entertainment Group One Blockbuster Plaza Fort Lauderdale, FL 33301	Vice-Chairman of the Board of Viacom Inc. and Chairman of Blockbuster Entertainment Group; Chairman of the Board of Huizenga Holdings, Inc.	Blockbuster Entertainment Group One Blockbuster Plaza Fort Lauderdale, FL 33301
Frank J. Biondi, Jr.*	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	President, Chief Executive Officer of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
Vaughn A. Clarke	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Sr. VP, Treasurer of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
Philippe P. Dauman*	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Executive VP, General Counsel, Chief Administrative Officer and Secretary of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
Thomas E. Dooley	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Executive VP, Finance, Corporate Development and Communications of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
Carl Folta	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Sr. VP, Corporate Relations of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
Michael D. Fricklas	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Sr. VP, Deputy General Counsel and Assistant Secretary of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036

\* Director

Name -----	Business or Residence Address -----	Principal Occupation or Employment -----	Name and Address of Corporation or Other Organization in Which Employed -----
Susan Gordon	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	VP, Controller and Chief Accounting Officer of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
Rudolph L. Hertlein	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Sr. VP of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
Edward D. Horowitz	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Sr. VP, Technology of Viacom Inc. and Viacom International Inc.; Chairman, Chief Executive Officer of Viacom Interactive	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
Henry Leingang	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Sr. VP, Chief Information Officer of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
William A. Roskin	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Sr. VP, Human Resources and Administration of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
George S. Smith, Jr.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Sr. VP, Chief Financial Officer of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036
Mark M. Weinstein	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036	Sr. VP, Government Affairs of Viacom Inc. and Viacom International Inc.	Viacom Inc. and Viacom International Inc. 1515 Broadway New York, NY 10036

Directors

George S. Abrams	Winer & Abrams 1 Court Street Boston, MA 02108	Attorney, Winer & Abrams	Winer & Abrams 1 Court Street Boston, MA 02108
Steven R. Berrard	Blockbuster Entertainment Group One Blockbuster Plaza Fort Lauderdale, FL 33301	President and Chief Executive Officer of the Blockbuster Entertainment Group	Blockbuster Entertainment Group One Blockbuster Plaza Fort Lauderdale, FL 33301

Name -----	Business or Residence Address -----	Principal Occupation or Employment -----	Name and Address of Corporation or Other Organization in Which Employed -----
William C. Ferguson	NYNEX Corporation 335 Madison Avenue New York, NY 10017	Chairman of the Board and Chief Executive Officer of NYNEX Corporation	NYNEX Corporation 335 Madison Avenue New York, NY 10017
George D. Johnson, Jr.	Blockbuster Entertainment Group One Blockbuster Plaza Fort Lauderdale, FL 33301	President -- Domestic Consumer Division of the Blockbuster Entertainment Group	Blockbuster Entertainment Group One Blockbuster Plaza Fort Lauderdale, FL 33301
Ken Miller	C.S. First Boston Park Avenue Plaza 55 East 52nd Street New York, NY 10055	Vice Chairman of C.S. First Boston	C.S. First Boston Park Avenue Plaza 55 East 52nd Street New York, NY 10055
Shari Redstone	National Amusements, Inc. 200 Elm Street Dedham, MA 02026	Executive Vice President of National Amusements, Inc.	National Amusements, Inc. 200 Elm Street Dedham, MA 02026
Brent D. Redstone	National Amusements, Inc. Showtime Networks Inc. 8101 East Prentice Ave. Englewood, CO 80111	Self-Employed	
Frederic V. Salerno	NYNEX Corporation 335 Madison Avenue New York, NY 10017	Vice Chairman--Finance and Business Development of NYNEX Corporation	NYNEX Corporation 335 Madison Avenue New York, NY 10017
William Schwartz	Yeshiva University 2495 Amsterdam Avenue New York, NY 10033	VP for Academic Affairs (chief academic officer) of Yeshiva University	Yeshiva University 2495 Amsterdam Avenue New York, NY 10033

Exhibit Index

Exhibit No. -----	Description -----	Page No. -----
A.	Management Services Agreement dated April 17, 1995, among the Issuer, Blockbuster and Viacom.	
B.	Stock Purchase Agreement dated as of April 17, 1995 among DKB, Inc., Kevin F. Flynn June, 1992 Non-Exempt Trust and Brian J. Flynn June, 1992 Non-Exempt Trust, as sellers, Donald F. Flynn, Kevin F. Flynn and Brian J. Flynn, as guarantors, and Viacom and BDI, as purchasers.	
C.	Letter agreement dated April 17, 1995 among the Issuer, Blockbuster Family Fun, Inc. and Family Entertainment Centers, Inc.	
D.	Press release issued by the Issuer on April 17, 1995.	

MANAGEMENT SERVICES AGREEMENT

This management services agreement (this "Agreement") is made as of April 17, 1995 among Discovery Zone, Inc. (the "Company"), Blockbuster Entertainment Group ("Blockbuster"), a division of Viacom Inc. ("Viacom"), and Viacom.

WHEREAS, upon consummation of the transactions contemplated by the Stock Purchase Agreement (the "Viacom Stock Purchase Agreement") among DKB, Inc., Kevin F. Flynn June, 1992 Non-Exempt Trust and Brian J. Flynn June, 1992 Non-Exempt Trust, as sellers, Donald F. Flynn, Kevin F. Flynn and Brian J. Flynn, as guarantors, and Viacom and Blockbuster Discovery Investment, Inc., as purchasers, Viacom will own 49.99% of the outstanding common stock of the Company;

WHEREAS, the Company has entered into an agreement with Blockbuster Family Fun, Inc. and Family Entertainment Centers, Inc. to acquire Blockbuster's Block Party business (the "Block Party Acquisition");

WHEREAS, Blockbuster has experience in multi-unit operations in the entertainment industry;

WHEREAS, the parties hereto mutually agree that Blockbuster should take over the operational and administrative functions of the Company by providing certain management services for the Company; and

WHEREAS, in return for such management services, the Company has agreed to (i) issue to Viacom warrants, having substantially the terms set forth on Exhibit A hereto (the "Warrants"), to purchase preferred stock of the Company and (ii) reimburse Blockbuster for the costs and expenses incurred in its provision of management services to the Company;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter contained and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

SECTION 1. Services to be Provided to the Company.

(a) General Duties. Blockbuster shall provide the

overall coordination and supervision of the business of the Company and its subsidiaries and shall direct and manage the day-to-day operations and business affairs of the Company and its subsidiaries. Blockbuster shall follow the policies and directives of the Board of

Directors of the Company and shall observe the same fiduciary duties of care and loyalty to the Company and its stockholders as would be imposed upon an officer or officers of the Company.

(b) Specific Services. The services to be provided

by Blockbuster for the Company under this Agreement shall be the following corporate and local level services:

(i) General executive services, including periodic advice and consultation with respect to the affairs of the Company;

(ii) General management and supervisory services, including business planning and development services, as well as assistance in any acquisitions and dispositions of assets;

(iii) General financial, accounting and payroll services, including (A) general accounting (billing/invoicing, accounts payable services, accounts receivables management and collection services and maintenance of general ledgers), (B) cash management and banking services, (C) budget preparation and (D) accounting and financial services associated with the preparation and filing of reports to federal, state and local governmental organizations, including those associated with the preparation and filing of reports to the United States Securities and Exchange Commission (the "SEC");

(iv) supply and purchasing services;

(v) sales, marketing and promotional services, including local advertising;

(vi) legal and tax services, including (A) regular and periodic advice and consultations with respect to legal and tax matters related to the Company, (B) the preparation and filing of, and assistance with respect to, tax returns and reports to the SEC and other governmental agencies, (C) preparation of contracts, leases and other legal instruments and (D) the management of the defense or prosecution of litigation, and of other legal services furnished by outside counsel, and making recommendations with respect thereto;

(vii) insurance services, including the inclusion, to the extent agreed upon by Blockbuster and the Company, of the Company as a loss payee under insurance policies maintained by Blockbuster, and processing and administration of insurance claims;

(viii) real estate property selection, acquisition and leasing services as well as property management;

(ix) services related to public relations and investor relations, including contacts with various news and trade publication media and securities analysts;

(x) corporate secretary services, including assistance in convening meetings of directors and stockholders and preparing the minutes of such meetings, preparing consents of directors and stockholders, preparing periodic reports to the SEC and the National Association of Securities Dealers, Inc., and other services normally associated with this function;

(xi) human resource and personnel administration services, including (A) employee and labor relations, (B) compensation and benefits, (C) hiring, promoting, demoting, discharging and transferring employees and (D) providing incentive and severance packages to employees; provided, however,

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that, except as set forth in any specific employee compensation or benefit plan, the services provided by Blockbuster hereunder shall in no event cause Blockbuster, its board of directors or any member thereof, its officers, employees, consultants or agents to be considered to be fiduciaries with respect to any employee compensation or benefit plan, program or arrangement maintained for the Company's employees, nor shall Blockbuster, its board of directors or any member thereof, its officers, employees, consultants or agents have any authority whatsoever regarding any fiduciary decision to be made with respect to any such plan, program or arrangement, or regarding the selection, appointment or retention of any individual or entity that performs or will perform any functions or responsibilities of a fiduciary nature with respect to any such plan, program or arrangement; and

(xii) such other services as are necessary or appropriate for the overall coordination and supervision of the business of the Company and its subsidiaries and the management of the day-to-day operations and business affairs of the Company and its subsidiaries, including, but not limited to, management of construction, food service, games, research and development, computer systems development and maintenance, and employee training.

(c) Consultants and Experts. From time to time,

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Blockbuster may employ consultants, experts (including attorneys and accountants) or other third party service providers in connection with the performance of Blockbuster's duties under this Agreement. Payment for the services rendered by such consultants and experts shall be in accordance with the provisions of Section 2 hereof.



## (d) Resources. Blockbuster will make such resources

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 (including, without limitation, computer software and access to third party vendors) available to the Company as Blockbuster reasonably deems necessary in the performance of its duties under this Agreement. Notwithstanding anything in this Agreement to the contrary, Blockbuster shall not be obligated to provide the Company with any services or access to any Viacom or Blockbuster property except as expressly specified in Section 1(b) above.

## (e) Executive Personnel. The general executive

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 services described in subsection (b)(i) above include providing personnel who will serve as officers of the Company. The number and title of such officer positions, subject to the oversight and approval of the Board of Directors of the Company, shall be determined by Blockbuster and such positions may be filled by persons who are also employees and officers of Viacom or Blockbuster Entities. Such officers may include the Chief Executive Officer, the President, the Chief Operating Officer, the Controller, the General Counsel, the Treasurer, the Chief Financial Officer, the Secretary, one or more Executive Vice Presidents and one or more Vice Presidents. Compensation for the services of such personnel will be paid by the Company in accordance with the provisions of Section 2.

## (f) Access. During the term of this Agreement,

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 Blockbuster shall be entitled to have reasonable access at all reasonable times to the premises and relevant records of the Company for the purpose of providing the foregoing services and the Company shall cooperate fully with Blockbuster to provide any information or assistance as necessary or appropriate in connection with the provision of the foregoing services.

## (g) Limitation on Rights; Notification.

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 Blockbuster's rights under this Agreement do not include the right to exercise any of the rights of the Company set forth in this Agreement, which shall remain with a special committee of the Board of Directors of the Company (the "Special Committee"), comprised of independent directors as such term is defined in the Schedule D to the By-Laws of National Association of Securities Dealers, Inc. ("Independent Directors"), or any agent appointed by such committee. Blockbuster agrees to promptly notify the Board of Directors of the Company of any event or condition of which Blockbuster becomes aware in the performance of its duties hereunder which could reasonably be expected to have a material effect on the assets, business, financial condition or operations of the Company; provided that a failure to so notify the Board of Directors shall not result in liability to Blockbuster except to the extent the Company is materially prejudiced thereby.

SECTION 2. Compensation for Services.  
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(a) Quarterly Fee. The Company will pay to  
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Blockbuster or any agent designated by Blockbuster a quarterly fee equal to the actual costs, fees, expenses and reimbursements of the services provided, and a fair and reasonable allocation of overhead, during the preceding calendar quarter. In the case of overhead, such cost shall be determined by allocating an appropriate percentage of Blockbuster's and Blockbuster Entities' overhead to the Company. Without limiting the generality of the foregoing, such costs shall include, without limitation:

(i) Salaries of any of the Company's officers who are officers or employees of Blockbuster or any Blockbuster Entity and other employees of Blockbuster or Blockbuster Entities who provide services to the Company (collectively, "Blockbuster Employees"), and the cost of employee benefit and bonus programs and other employee costs for the Blockbuster Employees. With respect to any Blockbuster Employee who does not provide full-time services to the Company, the costs of such salary, employee benefits and bonus programs, and other employee costs, will be pro rated according to a reasonable estimate of the amount of time such Blockbuster Employee spends on the Company's business in relation to the amount of time such person spends on all matters for Blockbuster or a Blockbuster Entity and its affiliates, including the Company;

(ii) Travel and entertainment expenses of Blockbuster Employees, which are incurred in the course of providing services to the Company under this Agreement;

(iii) The actual cost of any third party services, such as law firms, engineering firms, public relations firms, consultants and accountants, as well as other fees, charges, taxes (excluding any taxes on Blockbuster's compensation under this Agreement) and dues paid for by Blockbuster or any Blockbuster Entity in the performance of this Agreement; and

(iv) Miscellaneous fees and expenses, including a fair and reasonable allocation of overhead, incurred by Blockbuster and any Blockbuster Entity and any agents thereof in providing services to the Company under this Agreement. Overhead, includes, but is not limited to, the cost of office space, furniture, computer systems, software and equipment, supplies, postage, utilities, telephone, other equipment, freight and handling, maintenance and taxes.

## (b) Payment of Quarterly Fee. Blockbuster will

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 submit to the Company a quarterly statement of the fee due hereunder. The statement shall include the method of calculation of the fee in reasonable detail and shall be supported, if applicable, by vouchers and such other information as may be reasonably requested by the Company. Within 10 days of Blockbuster's delivery of the statement, the Company shall pay Blockbuster the amount of the fee due; provided, however, that if the Company reasonably objects to

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 any fee or portion thereof, the Company may withhold the amount disputed, provided that the Company furnishes to Blockbuster a detailed written statement of the Company's objection (a "Dispute Notice"). If the Company withholds all or any portion of any fees and delivers a Dispute Notice in accordance with the preceding sentence, the parties shall endeavor in good faith to resolve such dispute. If such dispute is not resolved by the parties within 30 days after delivery of a Dispute Notice, the dispute shall be submitted to a firm of independent certified public accountants appointed by the parties. The decision of such accountants shall be determined within 30 days after such appointment and shall be final and binding upon the parties. Promptly, but in no event later than two business days following the resolution of any such dispute, the Company shall pay Blockbuster the amount of the fee due, if any (as determined by the parties hereto or by the independent certified public accountants), together with interest thereon at LIBOR plus .75% per annum or the maximum permitted by law, whichever is lower, accruing from tenth day following the Company's receipt of the applicable fee statement. "LIBOR" means the rate per annum (rounded upwards, if necessary to the next higher one hundred-thousandth of a percentage point) for deposits in United States dollars for a one-month period, which appears on the display designated as Page 3750 on the Telerate Service (or such other page as may replace Page 3750 on that service or such other service as may be nominated by the British Bankers' Association as the information vendor for the purposes of displaying British Bankers' Association Interest Settlement Rates for United States dollar deposits) on the tenth day following the Company's receipt of the applicable fee statement (or if such day is not a day on which such rate is quoted, the next succeeding day on which such rate is quoted) and as adjusted on each one month anniversary of such date (or if such day is not a day on which such rate is quoted, the next succeeding day on which such rate is quoted) until the fee determined to be due is paid by the Company. Blockbuster shall bear the expenses of such accounting firm if the amount of the fee due as determined by such accounting firm is less than 90% of the amount disputed (95% if the amount disputed is an annual fee); otherwise, the Company shall bear the expenses of such accounting firm.

## (c) Company's Right to Inspect. At the request of

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 the Special Committee made not more frequently than once in any calendar year (regardless of whether any Dispute Notice has been presented by the Company) and at any time on and after the presentation of a Dispute Notice (and for so long as such dispute remains unresolved),

the Company shall have the right during normal business hours, and with reasonable notice to Blockbuster, to inspect, or cause to be inspected, the business, bookkeeping and accounting records of Blockbuster relating to its services under this Agreement. The Special Committee may, at the Company's cost, engage independent certified public accountants or other representatives to assist it in the examination of such records and Blockbuster shall cooperate with such accountants or other representatives in any such inspection.

(d) Issuance of the Warrants to Viacom. In addition  
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to the quarterly fee, in consideration of the services provided by Blockbuster, the Company will issue the Warrants to Viacom on or prior to the Effective Date.

SECTION 3. Limitation of Liability; Indemnification.  
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(a) Limitation of Liability. Subject to Section 3(e)  
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hereof, neither Blockbuster nor any Blockbuster Entity nor any of their officers, directors, employees, consultants or agents shall be liable to the Company or any Company Entity, or to any officer, director, employee, consultant or agent of the Company or any Company Entity, for any cost, damage, expense or loss, including, without limitation, any special, indirect, consequential or punitive damages of the Company or any Company Entity, or any such officer, director, employee, consultant or agent, arising as a result of or in connection with any service, advice or data Blockbuster or any Blockbuster Entity may provide or fail to provide to the Company or any Company Entity pursuant to this Agreement.

(b) Indemnification of Blockbuster. Subject to  
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Section 3(e) hereof, the Company shall indemnify Blockbuster and each Blockbuster Entity, and each of their officers, directors, employees, consultants and agents, and shall hold Blockbuster and each Blockbuster Entity and each such officer, director, employee, consultant and agent harmless against any damage, loss, cost or expense (including court costs and reasonable attorneys' fees as they are incurred) which Blockbuster and any Blockbuster Entity, or any such officer, director, employee, consultant or agent may sustain or incur by reason of any claim, demand, suit or recovery by any person or entity (i) arising in connection with this Agreement, (ii) arising out of Blockbuster's or any Blockbuster Entity's, or any such officer's, director's, employee's, consultant's or agent's performance of Blockbuster's obligations under this Agreement, including, without limitation, arising out of any service, advice or data Blockbuster or any Blockbuster Entity may provide to the Company or (iii) arising out of the failure of the Company or any Company Entity to perform the Company's obligations pursuant to this Agreement. Notwithstanding the immediately preceding sentence the Company shall not be liable under the foregoing indemnification provision (x) to the extent any damage, loss, cost or expense is finally judicially

determined to have resulted from the willful misconduct or gross negligence of Blockbuster, such Blockbuster Entity or such officer, director, employee, consultant or agent in the performance of its obligations under Section 1 hereof, (y) to the extent any damage, loss, cost or expense arises out of a willful breach by Blockbuster of any of Blockbuster's obligations under this Agreement (other than its obligations under Section 1 hereof) or (z) for any damage, loss, cost or expense with respect to shareholder litigation arising in connection with of the announcement or signing of this Agreement.

(c) Indemnification of the Company. Notwithstanding

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 Section 3(a) hereof, Blockbuster shall indemnify the Company and each Company Entity, and each of their officers, directors, employees, consultants and agents, and shall hold the Company and each Company Entity and each such officer, director, employee, consultant and agent harmless against any damage, loss, cost or expense (including court costs and reasonable attorneys' fees) which the Company, any Company Entity, or any of their officers, directors, employees, consultants or agents may sustain or incur by reason of any claim, demand, suit or recovery by any person or entity arising out of Blockbuster's or any Blockbuster Entity's performance (or nonperformance) of Blockbuster's obligations pursuant to this Agreement but only (subject to 3(e) hereof) to the extent any damage, loss, cost or expense is finally judicially determined to have resulted from the willful misconduct or gross negligence of Blockbuster, any Blockbuster Entity or any of their officers, directors, employees, consultants or agents.

(d) Blockbuster Entity; Company Entity. As used

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 herein, "Blockbuster Entity" shall mean Viacom and any entity that (1) is affiliated with Blockbuster, excluding the Company, and (2) provides services to the Company under this Agreement on behalf of Blockbuster. As used herein, "Company Entity" shall mean affiliates of the Company, excluding Blockbuster or any Blockbuster Entity.

(e) Certain Liabilities. The limitations on the

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 liability of Blockbuster or a Blockbuster Entity contained in Section 3(a) and Section 3(c), and the rights of Blockbuster to indemnification under Section 3(b), shall not apply to any breach by Viacom of its obligations or covenants under Section 17(b) or Section 18 hereof.

SECTION 4. Effective Date; Termination.

(a) Effective Date. This Agreement shall not be

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 effective until the date on which the transactions contemplated by both the Viacom Stock Purchase Agreement and the Block Party Acquisition (if not otherwise terminated in accordance with its terms) shall have been consummated; provided, however, that the Company's representations in

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 Section 22 hereof are true and complete, and the Company is in

compliance with the covenants of Section 22 hereof, on such date; provided, however, that Blockbuster, in its sole

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 discretion, may waive the requirements of this sentence (but in no event earlier than the expiration or termination of the waiting period, if any, imposed by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended), in which case, this Agreement shall become effective on the date Blockbuster notifies the Company of such waiver. The date on which this Agreement becomes effective pursuant to the preceding sentence is referred to herein as the "Effective Date".

(b) Term. The initial term of this Agreement shall

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 commence on the Effective Date and end on the fifth anniversary thereof. Thereafter, this Agreement shall continue for consecutive one-year terms until it is terminated in accordance with this section. This Agreement may be terminated by Blockbuster or the Company at the end of the initial term or any one-year renewal by written notice given to the other party not less than six months prior to such termination. Notwithstanding the foregoing, (i) either the Company or Blockbuster may, at its option, terminate this Agreement upon two days' written notice to the other party, after June 30, 1995, if the Effective Date shall not have occurred on or prior to such date; (ii) either the Company or Blockbuster may, at its option, terminate this Agreement upon 60 days' written notice to the other party if (x) such other party has materially breached any of its obligations under this Agreement, (y) such notice specifies, in reasonable detail, the nature of such breach and (z) any breach specified in such notice has not been remedied or cured during the 60-day period following the delivery of such notice; provided, however, that if during

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 such 60-day period Blockbuster has undertaken good faith efforts toward remedying such breach, then such period shall be extended for a period equal to the lesser of (A) 120 days and (B) the amount of time in which such breach could reasonably be cured; and (iii) the provisions of Sections 3, 15, 17(b) and 18 and the performances of the duties of subsections (b), (c) and (d) of this Section 4 shall survive any such termination.

(c) Severance Payments. The Company will pay to

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 Blockbuster all of the employee severance costs incurred and paid by Blockbuster or any Blockbuster Entity to employees or officers of Blockbuster or any Blockbuster Entity (which severance costs on average shall not materially exceed the average costs of severance payments paid to other similarly situated employees and officers of Blockbuster) whose duties included rendering services to the Company (provided that such severance costs will be prorated for any employee who rendered less than substantially all of his or her time to the Company within the 90 days prior to termination; such proration shall be determined based on the amount of time such employee rendered service to the Company compared to the amount of time such employee rendered service to other Blockbuster business since the Effective Date) and who are terminated by Blockbuster

in connection with the termination of this Agreement on or within four months after the termination of this Agreement.

(d) Termination Expenses. For a period of six months  
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after the termination of this Agreement, Blockbuster shall take such actions as are reasonably necessary to close out the services provided by Blockbuster hereunder, including providing all reasonable assistance and cooperation in connection with transferring the performance of the services provided by Blockbuster under this Agreement from Blockbuster to the persons or entities designated by the Company to thereafter perform such services. The Company shall be directly liable, and shall reimburse Blockbuster in accordance with the provisions of Section 2 hereof for any amounts paid by Blockbuster or any Blockbuster Entity, for all services rendered, including all costs and expenses incurred by Blockbuster or any Blockbuster Entity (including, without limitation, fees and expenses of third parties (including accountants)) during such period to close out accounts, books and records of the Company maintained on its behalf by Blockbuster or any Blockbuster Entity and to take other such actions as are reasonably necessary to close out and transfer the services provided by Blockbuster hereunder, including, without limitation, final audits involving the Company and any Company Entity.

SECTION 5. Independent Contractor. The Company  
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acknowledges and agrees that Blockbuster has been retained to act solely as management service provider to the Company. In such capacity, Blockbuster shall act as an independent contractor, and any duties of Blockbuster arising out of its engagement pursuant to this letter agreement shall be owed solely to the Company and not to any security holder of the Company.

SECTION 6. Company Corporate Powers. Nothing herein  
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shall be construed to relieve the directors and officers of the Company or the Company Entities from the performance of their respective duties or limit the exercise of their powers. Nothing herein shall give Blockbuster the power to take any actions on behalf of the Company or the Company Entities that are solely within the authority of such entity's board of directors or shareholders or other governing body.

SECTION 7. Force Majeure. If Blockbuster is unable,  
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wholly or in part, by reason of any occurrence beyond the reasonable control of Blockbuster, to carry out any obligation under this Agreement, the performance of such obligation, to the extent and during the time that it is so affected, shall be suspended.

SECTION 8. Amendment. This Agreement may not be amended  
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except by a written instrument signed by all of the parties hereto.

## SECTION 9. Entire Agreement. This Agreement constitutes

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 the entire agreement between the parties and supersedes all prior agreements, representations, warranties, statements, promises, information, arrangements and understandings, whether oral or written, express or implied, with respect to the subject matter of this Agreement.

## SECTION 10. Severability. If any provision of this

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 Agreement shall be waived, or be invalid or unenforceable, the remaining provisions of this Agreement shall be unaffected thereby and shall remain binding and in full force and effect, and in the case any provision is found to be invalid or unenforceable, each of the parties shall use its best efforts to find and employ an alternative means to achieve the same or substantially the same results as that contemplated by such provision.

## SECTION 11. Governing Law. This Agreement shall be

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 governed by, and be construed in accordance with, the laws of the State of Delaware applicable to contracts executed and to be performed entirely in that state.

## SECTION 12. Submission to Jurisdiction. Any legal action

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 or proceeding with respect to this Agreement may be brought in the courts of the State of New York or, to the extent permitted by applicable law, of the United States for the Southern District of New York and, by execution and delivery of this Agreement, each of the parties hereto hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts.

## SECTION 13. Headings. The underlined headings of

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 paragraphs in this Agreement are included for reference only and are not a part of this Agreement.

## SECTION 14. Counterparts. This Agreement may be executed

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 in counterparts, each of which when so executed shall be deemed to be an original, and such counterparts together shall constitute one and the same agreement.

## SECTION 15. Confidentiality. Neither Blockbuster nor any

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 Blockbuster Entity shall use for personal benefit, disclose, communicate or divulge any of the legal, financial or business information of the Company which is proprietary to the Company. Notwithstanding the prohibitions of the immediately preceding sentence, Blockbuster's and each Blockbuster Entity's confidentiality obligations shall exclude the following: (i) any information known by Blockbuster or such Blockbuster Entity prior to disclosure by the Company; (ii) information disclosed to Blockbuster or such Blockbuster Entity by a third party, unless the third party was, to the best of Blockbuster's or such Blockbuster Entity's knowledge, under a duty not to disclose or use the information or unless the third party was, to the best of Blockbuster's knowledge, not in rightful possession of such information; (iii) information which is or becomes generally known in the pertinent trade or industry; (iv) such information is disclosed by the Company or its affiliates to other persons who are not bound by confidential



undertakings; or (v) such information is required to be disclosed by law, rule, regulation or judicial process (in which case Blockbuster shall, to the extent practicable, notify the Company prior to such disclosure).

SECTION 16. Assignment. None of the parties hereto shall

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 have the right (a) to assign, transfer or convey any of its rights or interest under this Agreement, or (b) except as contemplated by Section 1(c), to delegate any of its duties or obligations under this Agreement. Notwithstanding the foregoing, Blockbuster shall be entitled to assign its rights and obligations to any of its affiliates.

SECTION 17. Board of Directors. (a) On the Effective

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 Date, all non-Viacom directors except Donald F. Flynn will resign as members of the Board of Directors. Upon resignation of the aforementioned members of the Board of Directors, the Company will exercise all authority under applicable law (subject to the fiduciary obligations of the Board of Directors of the Company to the Company's stockholders) to cause nominees designated by Viacom to be elected or appointed to the Company's Board of Directors to fill such vacancies. Notwithstanding Section 4(a) hereof, on the date of this Agreement, Mr. Flynn will resign as Chief Executive Officer and Steven R. Berrard will be appointed interim Chief Executive Officer of the Company.

(b) Viacom shall, until such time as final, nonappealable judgments shall have been entered in the actions entitled In re Discovery Zone, Inc. Securities Litigation and Bernard Weisburgh v. Discovery Zone, Inc., et al., in the United States District Court for the Northern District of Illinois, or such action shall have been otherwise settled, and in all related actions, suits or other proceedings which may hereafter be filed or commenced (collectively, the "Securities Litigation"), take all actions (including causing its representatives on the Board of Directors of the Company to take all actions, subject to their fiduciary duties to the Company's stockholders) that are necessary to (i) cause there to be created a Special Litigation Committee of three members of the Board of Directors of the Company (the "Special Litigation Committee") having power (to the extent permitted by law) to supervise the conduct of the Securities Litigation and make recommendations to the Board with respect to material decisions with respect to the Securities Litigation, including settlements; provided that the Special Litigation Committee shall

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 have the power to enter into a settlement agreement pursuant to which the Company would not be obligated to pay any money and which settlement agreement does not contain any other terms or conditions which are adverse to the Company; and (ii) cause Messrs. Flynn and Berrard (for so long as they are directors) and an Independent Director to be members of the Special Litigation Committee.

(c) For so long as Donald Flynn is a director of the Company, neither Blockbuster nor Viacom shall take any action to reduce the amount of directors and officers liability

insurance coverage for directors and officers of the Company below the amount in effect on the date of this Agreement.

(d) The parties hereto agree that Section 17(b) and (c) are intended to be for the benefit of, and shall be specifically enforceable by, Donald Flynn.

SECTION 18. Viacom Covenants. (a) Neither Viacom nor any

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of its subsidiaries will, from and after the Effective Date and until the earlier of (i) the date that (w) directors, officers, employees or representatives of Viacom or any of its affiliates cease to constitute a majority of the Board of Directors of the Company and (x) Viacom beneficially owns less than 30% of the outstanding voting stock of the Company and (ii) the tenth anniversary of the date of this Agreement, engage in a transaction that would constitute a Rule 13e-3 (as such rule is in effect as of the date of this Agreement under the Exchange Act) transaction involving the Company, unless such transaction includes as a condition to the consummation of such transaction that (A) if such transaction occurs prior to the second annual meeting of the stockholders of the Company occurring after the date of this Agreement, the holders of a majority of the shares of common stock of the Company not owned by Viacom or its subsidiaries that are present (whether in person or by proxy) and entitled to vote at the meeting of stockholders called to vote on such transaction shall have voted in favor thereof and (B) a special committee (the "Independent Committee") of the Board of Directors of the Company comprised solely of Independent Directors of the Company shall have (i) approved the terms and conditions of the transaction and (ii) received from its financial advisor a written opinion addressed to the Independent Committee substantially to the effect that the consideration to be received by the stockholders of the Company (other than Viacom or its subsidiaries) in the transaction is fair to such stockholders from a financial point of view.

(b) The parties hereto agree that irreparable damage would occur in the event the provisions of Section 18(a) of this Agreement were not performed in accordance with their specific terms and that the parties shall be entitled to specific performance of the terms thereof, in addition to any other remedy at law or in equity.

SECTION 19. No Breach; Consents and Approvals. (a) The

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execution and delivery of this Agreement by the Company do not, and the consummation of the transactions contemplated hereby will not (i) violate or conflict with the Certificate of Incorporation or the Bylaws of the Company or any of its subsidiaries or (ii) except as set forth on Schedule 19 attached hereto, constitute a breach or default (or an event that with notice or lapse of time or both would become a breach or default) of, or give rise to any lien, third party right of termination, cancellation, material modification or acceleration, under any material agreement, understanding or undertaking to which the Company or any of its subsidiaries is a party or by which it or any them is bound or violate or conflict with any law, rule, regulation, judgment, decree or order to which it or any of them is subject.

(b) The execution and delivery of this Agreement by Blockbuster and Viacom do not, and the consummation of the transactions contemplated hereby will not (i) violate or conflict with the Certificate of Incorporation or the Bylaws of Viacom or any of its subsidiaries or (ii) constitute a breach or default (or an event that with notice or lapse of time or both would become a breach or default) of, or give rise to any lien, third party right of termination, cancellation, material modification or acceleration, under any material agreement, understanding or undertaking to which Viacom or any of its subsidiaries is a party or by which it or any them is bound or violate or conflict with any law, rule, regulation, judgment, decree or order to which it or any of them is subject.

SECTION 20. Severance Terms.

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(a) For purposes of this Section 20, (i) "Transition Period" shall mean the period commencing on the Effective Date and ending 30 days thereafter, (ii) "Officers" shall mean those employees of the Company set forth on Schedule 20(ii) hereto, (iii) "Level A Employees" shall mean those employees of the Company set forth on Schedule 20(iii) hereto, (iv) "Level B Employees" shall mean those employees of the Company set forth on Schedule 20(iv) hereto and (v) "Employees" shall mean collectively all Officers, Level A Employees and Level B Employees.

(b) Each Employee who remains an employee of the Company during the Transition Period shall be entitled to: (i) a cash payment from the Company (the "Severance Payment") on the date of termination (other than for cause, as defined in the Company's 1993 Employee Stock Option Plan) of such Employee's employment with the Company by the Company (including a relocation demand) equal to the greater of (x) the amount such Employee would be entitled to under an employment agreement with the Company or its subsidiary and (y) six months of such Employee's annual base salary at the time of such termination, in the case of an Officer, three months of such Employee's annual base salary at the time of such termination, in the case of a Level A Employee, and one month of such Employee's annual base salary at the time of such termination, in the case of a Level B Employee, (ii) a one-year period commencing on the Effective Date during which to exercise any options under the 1993 Employee Stock Option Plan of the Company held by such Employee as of the Effective Date.

(c) Each Employee who remains an employee of the Company after the Transition Period shall be entitled to a cash payment from the Company, in addition to the Severance Payment, on the date of termination (other than for cause, as defined in the Company's stock option plans) of such Employee's employment with the Company by the Company (including a relocation demand) equal to one week's base salary at the time of such termination for each week such Employee remained after the Transition Period, up to a maximum of three month's base salary.

(d) Blockbuster agrees to make Group Outplacement Services (as hereinafter defined) available to all employees of the Company whose employment is terminated by the Company other than for cause (each, a "Terminated Employee"). For purposes of this Section 20(d), "Group Outplacement Services" shall consist of a one-day resume preparation program provided by a resume preparation firm chosen by Blockbuster in its sole discretion. Such Group Outplacement Services shall be provided to each Terminated Employee not later than ten (10) business days following such employee's date of termination.

SECTION 21. Publicity. Notwithstanding Section 4(a)

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 hereof, from the date of this Agreement, no public release or announcement related to this Agreement or the transactions contemplated hereby will be issued by any party hereto without the prior approval of the other parties, except that any party may make such public disclosure which it believes in good faith to be required by law (in which case such party will consult with the other parties prior to making such disclosure).

SECTION 22. Representations and Covenants of the Company.

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 Notwithstanding Section 4(a) hereof, except as specified herein, during the period from the date of this Agreement to the Effective Date, neither the Company nor any of its subsidiaries (i) will, directly or indirectly, issue any equity securities (other than upon the exercise of vested options or exercisable

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 warrants outstanding on the date hereof) and or securities

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 convertible into or exercisable or exchangeable for equity securities or grant any employee stock options, pay any bonuses, amend or enter into any employee benefits plans, stock option plans, any other employee plans or employee contracts (other than, except in the case of Officers, in the ordinary course of business, consistent with past practice) or otherwise change the terms of compensation for any of its employees (other than, except in the case of Officers, in the ordinary course of business, consistent with past practice) or settle the Securities Litigation, in each case without the prior written consent of Blockbuster, provided that Blockbuster will not withhold its consent to any settlement of the Securities Litigation which does not obligate the Company to pay any money and does not contain any terms or conditions adverse to the Company and (ii) will run its business in the ordinary course in accordance with past practice.

SECTION 23. Waiver of Jury Trial. Each of Blockbuster

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 and the Company (in its own behalf and, to the extent permitted by applicable law, on behalf of its shareholders) waives all right to trial by jury in any action, proceeding or counterclaim (whether based upon contract, tort or otherwise) related to or arising out of Agreement, or the actions or failure to act in the negotiation, administration, performance or enforcement thereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

DISCOVERY ZONE, INC.

By: /s/ Kevin F. Flynn

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Name: Kevin F. Flynn  
Title: Senior Vice President -  
Development

BLOCKBUSTER ENTERTAINMENT GROUP,  
a division of Viacom Inc.

By: /s/ Adam D. Phillips

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Name: Adam D. Phillips  
Title: Vice President

VIACOM INC.

By: /s/ Thomas W. Hawkins

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Name: Thomas W. Hawkins  
Title: Assistant Secretary

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## WARRANT TERM SHEET

Number of Warrants . . . 157,821 Series A Warrants, 157,821 Series B Warrants and 157,821 Series C Warrants.

Exercise Price . . . . . The Series A Warrants will entitle Viacom to purchase an aggregate of 157,821 shares of Convertible Voting Participating Preferred Stock, par value \$.01 per share ("DZI Preferred Stock"), of Discovery Zone, Inc. ("DZI") at an exercise price of \$249.000 per preferred share, subject to adjustment. The Series B Warrants will entitle Viacom to purchase an aggregate of 157,821 shares of DZI Preferred Stock at an exercise price of \$286.344 per preferred share, subject to adjustment. The Series C Warrants will entitle Viacom to purchase an aggregate of 157,821 shares of DZI Preferred Stock at an exercise price of \$343.608 per preferred share, subject to adjustment.

Term . . . . . The Warrants will expire in five years from the Effective Date, provided, however, that the term of -----  
the Warrants shall be extended for additional one-year terms in the event and as long as that the Management Services Agreement is continued for any period after the initial term thereof; provided, -----  
further, that (i) the Series A -----  
Warrants will expire on the date the Management Services Agreement is terminated by (x) DZI because of a material breach by Blockbuster Entertainment Group ("BEG") or (y) Blockbuster (other than termination for a material breach by DZI), in each case if such termination occurs prior to the first anniversary of the Effective Date, (ii) the Series B Warrants will expire on the date the Management Services Agreement is terminated by (x) DZI because of a material breach by BEG or (y) Blockbuster (other than termination for a material breach by DZI), in each case if such termination occurs prior to the second anniversary of the Effective Date and (iii) the Series C Warrants

will expire on the date the Management Services Agreement is terminated by (x) DZI because of a material breach by BEG or (y) Blockbuster (other than termination for a material breach by DZI), in each case if such termination occurs prior to the third anniversary of the Effective Date.

Exerciseability . . . .

The Warrants shall be exercisable, in whole or in part, on or after December 16, 1998, unless and until the Warrants have expired as described above under "Term"; provided that in the event of a -----

change in control (as defined in the DZI LYONs) of DZI or a sale of a sufficient number of shares of Common Stock such that Viacom owns less than 20% of the total number of DZI shares of Common Stock outstanding or upon mutual agreement, the exercise period for the Warrants would be accelerated; provided further, that in no event -----

will the Warrants be exercisable prior to (x) the first anniversary of the Effective Date, with respect to the Series A Warrants, (y) the second anniversary of the Effective Date, with respect to the Series B Warrants and (z) the third anniversary of the Effective Date, with respect to the Series C Warrants; provided further, that to -----

the extent shareholder approval is required under the rules and regulations of the NASD to exercise any portion of the Series A Warrants, such Warrants will not become exercisable unless and until such approval is obtained.

Antidilution Adjustments

The exercise price per share of DZI Preferred Stock will be adjusted pursuant to customary antidilution provisions, including, dividends, liquidations, certain mergers and consolidations, stock splits, stock dividends, subdivisions or combinations with respect to the Common Stock.

Transferability . . . .

The Warrants will not be transferable by Viacom other than to any of its affiliates.

## Terms of DZI Preferred Stock

Maturity . . . . .	Perpetual.
Dividends . . . . .	Non-cumulative dividends equal to the greater of (i) 5% of the liquidation preference per share of DZI Preferred Stock, when, as and if declared by the Board of Directors and (ii) an amount equal to the pro rata share of dividends paid with respect to the Common Stock (determined based on the number of shares of Common Stock each share of DZI Preferred Stock would be convertible into), which will rank senior to the Common Stock and junior to any other preferred stock.
Conversion Rights . . .	Convertible, in the aggregate (assuming all Warrants vest) into 11,363,112 shares of Common Stock automatically immediately but only following the sale of the DZI Preferred Stock by Viacom to an unaffiliated third party.
Voting Rights . . . . .	Each share of DZI Preferred Stock will be entitled to such number of votes equal to the number of shares of Common Stock it is convertible into and, except as required by law, will vote together as one class with the Common Stock on all matters submitted for stockholder approval.
Liquidation Preference	\$.10 per share of DZI Preferred Stock, and thereafter equally with Common Stock based on number of shares of Common Stock it is convertible into.
Antidilution Adjustments	The number of shares of Common Stock each share of DZI Preferred Stock is convertible into will be adjusted pursuant to customary antidilution provisions, including, dividends, liquidations, certain mergers and consolidations, stock splits, stock dividends, subdivisions or combinations with respect to the Common Stock and "below then current market price" issuances of Common Stock.



Registration Rights . .

The holders of DZI Preferred Stock will be entitled to the registration rights summarized below.

Demand Registration: The holders of DZI Preferred Stock shall be entitled to require DZI to file a registration statement with respect to a public offering of the DZI Common Stock for which their DZI Preferred Stock is exercisable (the "Registrable Securities") on one occasion; provided that no such demand may be made within 180 days after the effective date of any registration statement as to which the holders could have exercised piggyback registration rights as described below; and provided further that such demand registration may not be for a shelf registration of Registrable Securities. Such demand right may be exercised by a majority of the DZI Common Stock for which the DZI Preferred Stock is then exercisable that are entitled to registration rights as provided herein. Any such registration shall be subject to the piggyback registration rights granted to any other person by DZI; provided that DZI shall not grant any registration rights to any person after the Effective Date that permit the cut-back by such person of Registrable Securities included in a demand registration thereof.

Limitations on Demand  
Registration Rights:

Any demand for registration will be required to cover a number of Registrable Securities having a fair market value of not less than \$25,000,000 at the time of such demand. If a demand registration is requested and prior to that time (i) DZI has in good faith commenced the preparation of a registration statement for an underwritten public offering and (ii) the managing underwriter for such offering determines, and set forth in writing to the holders of the DZI Preferred Stock requesting such registration (the "Participating Holders"), its good faith opinion that the proposed offering by the Participating Holders will materially and adversely affect such DZI public offering, DZI will be permitted to defer (a "Transactional Deferral") the filing of such demand registration on behalf of the Participating Holders until the earliest of (a) the abandonment of such offering by DZI, (b) 60 days after receipt by the Participating Holders of the opinion of the managing underwriter described above (unless the

DZI offering has become effective on or prior to such 60th day) or (c) if the DZI offering has commenced on or prior to such 60th day, 90 days after the effective date of such offering (or such shorter period as may be requested by the underwriter for such offering). DZI will not be permitted to defer a demand registration by the Participating Holders on the basis of a Transactional Deferral more than once in any 12-month period. DZI may postpone for not more than 90 days in any 365-day period the filing of a demand registration on behalf of the Participating Holders if DZI is advised by legal counsel that such filing will require disclosure of material information that DZI has a bona fide business reason for preserving as confidential and the disclosure of which, DZI determines reasonably and in good faith, would have a material adverse effect on DZI. If DZI defers any registration statement as provided herein and the Participating Holders determine not to proceed with such registration on or prior to the end of such deferral period, the holders' one registration demand will be reinstated.

**Piggyback Registration:**

If DZI proposes to register a primary or secondary offering of its securities (except an Excluded Registration, as hereinafter defined), any holder of DZI Preferred Stock having registration rights (a "Requesting Holder") will be entitled to include Registrable Securities in such registration (which Registrable Securities, in the case of a registration to effect an underwritten offering, shall include only Registrable Securities of the same type as those being registered by the person initiating such registration, if the managing underwriter for such offering determines that the inclusion of other types of Registrable Securities would materially and adversely affect such offering). An "Excluded Registration" means (i) any registration of DZI securities to be issued pursuant to a stock option or employee benefit plan, (ii) a registration of DZI securities to be issued to or for the benefit of, or resold by, the owners of one or more businesses, franchises, development or management rights or other assets to be acquired by DZI in consideration, in whole or part, of such securities, (iii) any registration in connection with the issuance by DZI of (x) securities or rights convertible into or exchangeable for shares of DZI Common Stock having a conversion or exchange premium at the time of initial offering of such securities or rights of at least 10% in excess of the then fair market value of the DZI Common Stock or (y) warrants

exercisable for shares of DZI Common Stock having an exercise price at the time of the initial offering of such warrants of at least 50% in excess of the then fair market value of the DZI Common Stock, and (iv) any registration effected pursuant to the registration rights granted to McDonald's Corporation.

Limitation on Participation  
in DZI Registrations:

The right to participate in a registration of securities by DZI will be subject to customary rights to cut-back the selling stockholder's participation in an underwritten public offering wherein the managing underwriter determines that the number of shares that are proposed to be sold would materially and adversely affect the offering. If such cut-back rights are exercised in connection with an underwritten offering, (i) first, all securities DZI or the other person or persons initiating such offering proposes to sell for its own account shall be included and (ii) second, Registrable Securities and securities requested to be included by other holders of registration rights from DZI shall be included pro rata based on the number of shares of DZI Common Stock held by each of them at the time the registration statement is to be filed.

Expenses:

In connection with any demand registration, DZI will pay all out-of-pocket expenses of DZI incurred in connection therewith, including registration and filing fees, blue sky fees, printing expenses, and fees and expenses of outside counsel and independent auditors to DZI, so long as such registration can be filed on Form S-3 and requires no audit activities (other than the preparation of a customary comfort letter) by DZI's independent public accountants. With respect to any other type of demand registration, such expenses of DZI shall be split 50/50. DZI and the Participating Holders shall each bear all of their own internal expenses associated with any such offering. The Participating Holders will pay their pro rata share of underwriting discounts, commissions, selling concessions and stock transfer taxes applicable to the sale by the holders of Registrable Securities pursuant to a registration provided for herein and all fees and disbursements of any legal counsel, investment banker, accountant or other professional advisor retained by a holder ("Selling Expenses"). With respect to a piggyback registration, DZI will pay all of the out-of-pocket expenses of such

registration, except the Requesting Holder's pro rata share of Selling Expenses.

Underwriting:

In connection with a demand registration involving an underwritten public offering, DZ will, if requested by the underwriters for such offering, enter into an underwriting agreement with such underwriters containing terms and provisions customarily contained in underwriting agreements for secondary distributions, except contribution provisions. In connection with any piggyback registration involving an underwritten offering, the Company may require that all Registrable Securities be included on the same terms and conditions as shall be applicable to other securities being sold by the underwriters in such offering.

Other Provisions:

If requested by the managing underwriter of a DZI public offering, the holders of the DZI Preferred Stock having registration rights will agree not to sell any Registrable Securities or other DZI Common Stock held by them, during the 30 days prior to and the 90 days after the effectiveness of the registration statement for such offering (or such shorter period as requested by such underwriter), except for sales as part of such offering and private sales. If requested by the managing underwriter for the demand registration contemplated hereby, DZI will agree not to sell any DZI Common Stock, or securities exercisable or exchangeable or convertible for DZI Common Stock, subject to customary exceptions, for 90 days after the effective date of the demand registration statement.

Termination of Registration Rights:

The registration rights granted hereunder will terminate as to any Registrable Securities (and such securities shall no longer constitute "Registrable Securities"), the holder of which can sell all Registrable Securities held by such holder under Rule 144 under the Securities Act of 1933, as amended, within a nine-month period.

Transfer of Rights:

A holder of DZI Preferred Stock may transfer registration rights to any transferee if at least 25% of the original number of shares of the DZI Preferred Stock are being transferred.

## STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement") is dated as of this 17th day of April, 1995 by and among DKB, Inc., a Delaware corporation ("DKB"), Kevin F. Flynn June, 1992 Non-Exempt Trust (the "KFF Trust"), and Brian J. Flynn June, 1992 Non-Exempt Trust (the "BJF Trust"), (each of DKB, the KFF Trust and the BJF Trust, a "Seller" and collectively, the "Sellers") and Donald F. Flynn, Kevin F. Flynn and Brian J. Flynn (collectively, the "Guarantors"), and Viacom Inc., a Delaware corporation ("Viacom") and its indirect wholly-owned subsidiary Blockbuster Discovery Investment, Inc., a Delaware corporation ("BDI"; for purposes hereof, references to "Viacom" shall mean Viacom Inc. or BDI, as the context requires).

## RECITALS

DKB owns 2,556,605 shares of common stock ("Common Stock") of Discovery Zone, Inc., a Delaware corporation ("DZI"). The KFF Trust owns 2,556,516 shares of Common Stock. The BJF Trust owns 2,556,516 shares of Common Stock.

Viacom (as successor in interest to Blockbuster Entertainment Corporation ("Blockbuster")) and the Sellers and the Guarantors, among others, entered into an Option Exercise Agreement dated as of September 2, 1994 (the "Option Exercise Agreement"), pursuant to which Viacom acquired a number of shares of Common Stock sufficient to increase its equity ownership interest in DZI from approximately 20% to 49.9%. Viacom currently owns 24,220,354 shares of Common Stock ("Viacom's Holdings"), representing approximately 49% of the issued and outstanding shares of Common Stock.

Viacom and DZI mutually agree that Blockbuster shall assume management of the operational and administrative functions of DZI and designate a majority of the members of the Board of Directors of DZI. Concurrently with the execution of this Agreement, Viacom and DZI are entering into a Management Services Agreement to effect these transactions. As part of

these transactions, Viacom desires to purchase from the Sellers the number of shares of Common Stock as set forth herein and the Sellers desire to sell such shares to Viacom, all as hereinafter provided and on the terms and subject to the conditions hereinafter set forth.

#### COVENANTS

NOW, THEREFORE, Viacom, the Sellers and the Guarantors, in consideration of the agreements, covenants and conditions contained herein, hereby make the following representations and warranties, give the following covenants and agree as follows:

#### ARTICLE I

##### Purchase and Sale of the Shares

Section 1.1 Purchase and Sale. The Sellers agree to and will sell, transfer, assign and deliver to BDI at the Closing, free and clear of all liens, pledges, encumbrances, security interests, claims and equities of every kind, and BDI agrees to and will purchase and accept from the Sellers, on the terms and subject to the conditions and limitations set forth in this Agreement, an aggregate of 3,823,647 shares of Common Stock (the "Shares"). Each of DKB, the KFF Trust and the BJF Trust will deliver 1,274,549 shares of Common Stock.

## ARTICLE II

### Purchase Price

Section 2.1 Amount of the Purchase Price. As consideration for the Shares (the "Purchase Price"), Viacom agrees, subject to the terms, conditions and limitations set forth in this Agreement, to pay to or for the account of each Seller an amount in cash equal to \$6.50 per Share sold by such Seller.

## ARTICLE III

### Closing

Section 3.1 Closing. The closing of the purchase of the Shares (the "Closing") shall take place at the offices of Pedersen & Houpt, 161 North Clark Street, Suite 3100, Chicago, Illinois, at 10:00 a.m. (Chicago time) on the third business day following the termination or the expiration of the waiting period imposed by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") for the filings made pursuant to Sections 7.3 and 8.3 hereof by the parties; provided that if any of the conditions which are set forth in Articles IX and X of this Agreement have not been satisfied (or waived) by said date, then the Closing shall take place on a subsequent date as soon as practicable after the satisfaction or waiver of such conditions. The date on which the Closing occurs is referred to herein as the "Closing Date."

Section 3.2 Procedure at the Closing. At the Closing, the parties hereto agree to take the following steps in the order listed below (provided, however, that upon their completion all such steps shall be deemed to have occurred simultaneously):

(a) The Sellers shall deliver to Viacom, in form and substance reasonably satisfactory to Viacom, the certificates described in Section 9.1 hereof and all other previously undelivered



documents required to be delivered by the Sellers to Viacom at or prior to the Closing pursuant to the terms of this Agreement.

(b) Viacom shall deliver to the Sellers, in form and substance reasonably satisfactory to the Sellers, the certificate described in Section 10.1 hereof and all other previously undelivered documents required to be delivered by Viacom to the Sellers at or prior to the Closing pursuant to the terms of this Agreement.

(c) The Sellers shall deliver certificates for the Shares being purchased, duly endorsed in blank or accompanied by stock powers executed in blank, in form satisfactory to Viacom and with all required stock transfer tax stamps affixed.

(d) Viacom shall deliver to each Seller \$6.50 for each Share delivered by such Seller, by wire transfer of immediately available funds to an account of such Seller designated to Viacom in writing not less than two business days prior to the Closing.

(e) Viacom and each Seller shall execute and deliver cross receipts acknowledging, in the case of Viacom, receipt from such Seller of the Shares purchased from such Seller and, in the case of a Seller, the portion of the Purchase Price received by such Seller.

(f) DKB shall deliver to Viacom an incumbency certificate as to those officers executing this Agreement on its behalf.

(g) The parties shall deliver such other documents and certificates as may be reasonably required to close the transaction.

## ARTICLE IV

### Representations and Warranties of Sellers Concerning the Transaction

In order to induce Viacom to enter into this Agreement and to consummate the transactions contemplated hereby, each Seller makes the representations and warranties set forth below with respect to itself only, each of which is independently relied upon by Viacom regardless of any other investigation made or information obtained by Viacom, and each of which is correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Article IV).

Section 4.1 Organization, Good Standing and Power of the Seller. If such Seller is a corporation, such Seller is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation. Such Seller has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted, and is duly qualified to do business and in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, other than in such jurisdictions where the failure to so qualify would not have a material adverse effect on such Seller or delay or prevent the Seller from performing its obligations under this Agreement. If a Seller is a trust, such trust has been duly formed under the laws of the state of its formation.

Section 4.2 Authorization. Such Seller has full power and authority and legal capacity to enter into this Agreement and to perform its obligations under this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement and all other agreements, instruments and documents contemplated hereby to be executed by such

Seller and the consummation of the transactions contemplated hereby have been duly authorized by all necessary action of such Seller. This Agreement and all other agreements, instruments and documents contemplated hereby to be executed by such Seller are (or upon execution and delivery thereof by such Seller will be) valid and binding agreements of such Seller, enforceable against such Seller in accordance with their respective terms except (i) as the same may be limited by applicable bankruptcy, insolvency, moratorium or similar laws of general application relating to or affecting creditors' rights, including the effect of statutory or other laws regarding fraudulent conveyances and preferential transfers, and (ii) for the limitations imposed by general principles of equity (as opposed to those principles applicable only to trusts).

Section 4.3 No Breach. The execution and delivery of this Agreement by such Seller do not, and the consummation of the transactions contemplated hereby will not, (i) violate or conflict with, in the case of a corporate Seller, the certificate or articles of incorporation of such Seller or the bylaws or code of regulations of such Seller or, in the case of a Seller which is a trust, such Seller's trust agreement or applicable law with respect to the obligations of a trustee or other fiduciary, or (ii) constitute a breach or default (or an event that with notice or lapse of time or both would become a breach or default) of, or give rise to any lien, third party right of termination, cancellation, material modification or acceleration, under any material agreement, understanding or undertaking to which such Seller or, in the case of a corporate Seller, any of its subsidiaries or shareholders or, in the case of a trust Seller, any of its beneficiaries or trustees is a party or by which it or any of them is bound or violate or conflict with any law, rule, regulation, judgment, decree or order to which it or any of them is subject. For purposes of this Agreement, a "subsidiary" of any Seller shall mean any corporation, partnership, joint venture, association or other entity, wherever and however organized, in which such Seller owns directly or indirectly or has the

right to acquire a majority of the capital stock, equity or beneficial interests, is a general partner, or otherwise controls management of, by having the right or ability to designate a majority of the directors or members of the governing body thereof, whether by agreement or otherwise.

Section 4.4 Consents and Approvals. Neither the execution and delivery of this Agreement by each Seller nor the consummation of the transactions contemplated hereby will require any consent, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority, any court or tribunal or any other person or entity, except (i) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not prevent or delay such Seller from performing its obligations under this Agreement; (ii) the filing of any reports or forms required by "blue sky" regulations; (iii) filings required by the HSR Act; (iv) the filing of reports required under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (v) filings required with the National Association of Securities Dealers, Inc.; and (vi) filings required to be made by Viacom or its affiliates.

Section 4.5 The Shares. At the Closing Date and upon the exercise of certain warrants, each of the Sellers will own its Shares (and its shares of Common Stock subject to Article XI (the "Additional Shares")) free and clear of all liens, encumbrances, mortgages, pledges, security interests, restrictions, prior assignments and claims of any kind or nature whatsoever (collectively, "Liens"). The Shares (and Additional Shares) owned by each Seller at Closing will have been duly and validly authorized and issued, and will be fully paid and nonassessable and will not be subject to any voting trust, stockholders agreement, proxies or other agreements with respect to voting or transfer other than agreements to which Viacom or its affiliates are a party. The KFF Trust as Seller represents and warrants that the sole trustee and the sole beneficiary of such Seller is Kevin F. Flynn, and Kevin F. Flynn and Robert W. Flynn are the sole members of the advisory committee

of such Seller. The BJT Trust as Seller represents and warrants that the sole trustee and the sole beneficiary of such Seller is Brian J. Flynn, and Brian J. Flynn and Robert W. Flynn are the sole members of the advisory committee of such Seller. The Shares owned by each Seller at Closing will have been approved for trading on the Nasdaq National Market.

Section 4.6 McDonald's Co-Sale Agreement. The parties acknowledge that Donald F. Flynn ("Flynn") and McDonald's Corporation ("McDonald's") are parties to a Co-Sale Agreement dated as of August 30, 1994 (the "Co-Sale Agreement") pursuant to which, among other things, Flynn has the obligation to notify McDonald's not less than five business days prior to the execution of a definitive agreement relating to the sale or transfer of Common Stock by Flynn (the "Notice Provisions") and McDonald's has the right to participate in such contemplated sale or transfer with respect to the number of shares of Common Stock equal to the greater of (i) one-half of the number of shares of Common Stock subject to the contemplated sale, and (ii) the number of shares of Common Stock subject to the contemplated sale multiplied by a fraction, the numerator of which is the aggregate number of shares then beneficially owned by McDonald's and the denominator of which is the sum of the aggregate number of shares then beneficially owned by McDonald's and the aggregate number of shares then beneficially owned by Flynn (which fraction as of the date of this Agreement is 67.06%). Notwithstanding anything to the contrary elsewhere in this Agreement, the failure by Flynn to comply with the Notice Provisions shall not be a breach of any representation or warranty of the Sellers in this Agreement. Viacom acknowledges that McDonald's may decide to exercise its rights to participate in the transactions contemplated by this Agreement in accordance with the terms of the Co-Sale Agreement.

## ARTICLE V

### Representations and Warranties of Sellers Concerning DZI

In order to induce Viacom to enter into this Agreement and to consummate the transactions contemplated hereby, and subject to the disclosure schedule attached hereto and incorporated herein by reference (the "DZI Disclosure Schedule"), each Seller makes the representations and warranties set forth below with respect to DZI, each of which is independently relied upon by Viacom regardless of any other investigation made or information obtained by Viacom (except as set forth in Section 5.11), and each of which is correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Article V). As used in this Article V, "Knowledge of the Sellers" means the actual knowledge after reasonable investigation of any of the Sellers or the Guarantors. As used hereinafter, the term "DZI Material Adverse Effect" shall mean a material adverse effect on the assets, business, financial condition, or operations of DZI and its subsidiaries considered as one enterprise.

Section 5.1 Subsidiaries of DZI. All subsidiaries of DZI are set forth in Section 5.1 of the DZI Disclosure Schedule. DZI owns the percentage of capital stock or equity interest of each of the subsidiaries set forth in said Section 5.1 free and clear, except as set forth in said Section 5.1, of all Liens. Except as set forth in Section 5.1 of the DZI Disclosure Schedule and exclusive of the ownership of less than five percent of the outstanding securities of any class registered under the Exchange Act, neither DZI nor any of its subsidiaries owns, directly or indirectly, of record or beneficially, any capital stock or equity interest or investment in any corporation, partnership, joint venture, association or other entity.

Section 5.2 Organization, Good Standing and Power of DZI and its Subsidiaries. DZI and each of its subsidiaries is a corporation or limited partnership duly organized or formed, validly existing and in good standing under the laws of its state of organization or formation. DZI and each of its subsidiaries has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted, and is duly qualified to do business and in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, other than in such jurisdictions where the failure to so qualify would not have a DZI Material Adverse Effect.

Section 5.3 DZI Charter Documents, DZI Capital Structure. The Sellers have delivered or made available to Viacom true and complete copies of the certificate of incorporation of DZI (the "Certificate of Incorporation") and the bylaws, as amended, of DZI (the "Bylaws"). The authorized capital stock of DZI consists of 260,000,000 shares, of which 250,000,000 are shares of Common Stock and 10,000,000 are shares of preferred stock, par value \$.01 per share (the "DZI Preferred Stock"). As of the date of this Agreement, 48,864,721 shares of Common Stock were validly authorized and issued, fully paid, and nonassessable, and no shares of DZI Preferred Stock were issued or outstanding. Except for (i) an aggregate of 4,025,990 shares of Common Stock issuable pursuant to outstanding options under the Discovery Zone, Inc. 1993 Employee Stock Option Plan and 119,355 shares issuable under such Plan pursuant to options not yet granted; (ii) an aggregate of 333,334 shares of Common Stock issuable pursuant to outstanding options under the Discovery Zone, Inc. 1993 Stock Option Plan for Non-Employee Directors and 250,000 shares issuable under such Plan pursuant to options not yet granted (collectively, the Plans referred to in clauses (i) and (ii), the "DZI Option Plans"), (iii) an aggregate of 1,165,500 shares of Common Stock issuable upon the exercise of outstanding warrants issued to former partners of DKB Investments, L.P. other than

the Sellers, (iv) a maximum of 3,954,477 shares of DZI Common Stock as may be issued by DZI upon conversion of its Liquid Yield Option Notes due 2013 (the "LYONS"), and such other shares of Common Stock as may be issued upon the exercise by any holder of the LYONS of its rights to require DZI to repurchase such LYONS, and (v) such shares of Common Stock as may be issued by DZI in connection with pending acquisitions as set forth on Schedule 5.3, no other shares of common stock or DZI Preferred Stock or any rights, agreements, or commitments of any kind obligating DZI to issue or sell any other shares of Common Stock or DZI Preferred Stock were outstanding or were authorized by DZI. The number of the Outstanding Shares set forth in the certificate to be delivered pursuant to Section 9.7 immediately prior to the Closing will be correct as of the Closing.

Section 5.4 No Breach; Consents and Approvals. Neither the execution and delivery of this Agreement by each Seller nor the execution of the Management Services Agreement by the Company, nor the consummation of the transactions contemplated hereby and thereby would, (i) violate or conflict with the Certificate of Incorporation or the Bylaws of DZI or any of its subsidiaries or (ii) except as set forth in Section 5.4 of the DZI Disclosure Schedule, constitute a breach or default (or an event that with notice or lapse of time or both would become a breach or default) of, or give rise to any Lien, third party right of termination, cancellation, material modification or acceleration, under any material agreement, understanding or undertaking to which DZI or any of its subsidiaries is a party or by which it or any of them is bound or violate or conflict with any law, rule, regulation, judgment, decree or order to which it or any of them is subject. Except as set forth in Section 5.4 of the DZI Disclosure Schedule, neither the execution and delivery of this Agreement by each Seller nor the consummation of the transactions contemplated hereby will require any consent, approval, authorization or permit of, or filing with or notification



to, any governmental or regulatory authority, any court or tribunal or any other person or entity with respect to DZI or any of its subsidiaries, except (i) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not prevent or delay such Seller from performing its obligations under this Agreement and would not have a DZI Material Adverse Effect, and (ii) the filings specified in clauses (ii) through (vi) of Section 4.4.

Section 5.5 SEC Documents. The Sellers have delivered or made available to Viacom a true and complete copy of each report, schedule, registration statement and definitive proxy statement, including exhibits filed therewith (but excluding exhibits incorporated therein by reference and not attached thereto), filed by DZI with the Securities and Exchange Commission ("SEC") since June 3, 1993 (the "SEC Documents"), which, to the knowledge of the Sellers, are all the documents (other than preliminary materials) that DZI was required to file with the SEC since such date. Except to the extent information contained therein has been revised or superseded by a later filed SEC Document, as of their respective dates and as of the date hereof, (i) none of the SEC Documents contained or contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; and (ii) the financial statements of DZI included in the SEC Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles during the periods presented (except as may be indicated in the notes thereto or, in the case of the unaudited statements, as permitted by Form 10-Q of the SEC) and fairly present (subject, in the case of the unaudited statements, to normal, recurring audit adjustments) the financial position of DZI and its

consolidated subsidiaries as of the date thereof and the results of their operations and their cash flows for the periods then ended.

Section 5.6 Litigation. Except as disclosed in the SEC Documents, there is no suit, action or proceeding pending or, to the Knowledge of the Sellers, threatened against or affecting DZI or any of its subsidiaries that will have a DZI Material Adverse Effect, nor is there any judgment, decree, injunction, rule or order of any governmental authority, court of competent jurisdiction or arbitrator outstanding against DZI or any of its subsidiaries having, or which in the future will have, a DZI Material Adverse Effect.

Section 5.7 Absence of Adverse Changes. Except as disclosed in the SEC Documents, since December 31, 1994, DZI and its subsidiaries have conducted their respective businesses only in the ordinary course, and there has not been (i) any damage, destruction or loss, whether covered by insurance or not, which has or will have a DZI Material Adverse Effect, or (ii) any transaction, commitment, dispute or other event or condition of any character (whether or not in the ordinary course of business) individually or in the aggregate having, or which in the future will have, a DZI Material Adverse Effect.

Section 5.8 Compliance With Laws. To the Knowledge of the Sellers, (a) DZI and its subsidiaries are in compliance with all laws, regulations and orders applicable to them except with respect to failures to comply with laws, ordinances, rules or regulations which, if fully enforced, would not have a DZI Material Adverse Effect and (b) since June 30, 1993, neither DZI nor its subsidiaries has been cited, fined or otherwise notified of any asserted past or present failure to comply with any laws, except with respect to failures to comply which, if repeated, would not have a DZI Material Adverse Effect, and, to the Knowledge of the Sellers, no proceeding with respect to any such violation is contemplated.

Section 5.9 Environmental Matters.

(a) Neither DZI nor any of its subsidiaries has transported, stored, treated or disposed of, nor has any of them allowed or arranged for any third parties to transport, store, treat or dispose of Hazardous Substances (as hereinafter defined) or other waste to or at any location other than a site lawfully permitted to receive such Hazardous Substances or other waste for such purposes, nor has any of them performed, arranged for or permitted by any method or procedure such transportation, storage, treatment or disposal in contravention of any laws or regulations. Neither DZI nor any of its subsidiaries has disposed, or permitted or arranged for any third parties to dispose, of Hazardous Substances or other waste upon any of the real property now or previously owned or leased by DZI or any of its subsidiaries (the "Real Property"), except as permitted by law. For purposes of this Section 5.9, the term "Hazardous Substances" shall have the meaning given it in the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. Sec. Sec. 9601, et seq.), as amended, and the regulations promulgated pursuant thereto ("CERCLA"), or any similar state law.

(b) With respect to any parcel of Real Property, there has not occurred since, in the case of owned or previously owned Real Property, the date of the acquisition thereof and in the case of leased or previously leased Real Property, the commencement date of the lease covering such Real Property, or, to the Knowledge of the Sellers, before such date, nor is there presently occurring, a release of any Hazardous Substance on, into or, to the Knowledge of the Sellers, beneath the surface of such parcel of Real Property. For purposes of this Section 5.9, the term "release" shall mean releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, disposing or dumping.

(c) Neither DZI nor any of its subsidiaries has transported or disposed, nor has any of them permitted or arranged for any third parties to transport or dispose, any Hazardous Substances or

other waste to or at a site which, pursuant to CERCLA or any similar state law, (i) has been placed on the National Priorities List or its state equivalent, or (ii) the Environmental Protection Agency or the relevant state agency has proposed or, to the Knowledge of the Sellers, is proposing to place on the National Priorities List or its state equivalent. Neither DZI nor any of its subsidiaries has received notice, nor do any of them have knowledge of any facts which could give rise to any notice, that DZI or any of its subsidiaries is a potentially responsible party for a federal or state environmental cleanup site or for corrective action under CERCLA or any other applicable law or regulation. Neither DZI nor any of its subsidiaries has submitted nor was any of them required to submit any notice pursuant to Section 103(c) of CERCLA with respect to any of the Real Property. Neither DZI nor any of its subsidiaries has received any written request for information in connection with any federal or state environmental cleanup site. Neither DZI nor any of its subsidiaries has been required to or has not undertaken any response or remedial actions or clean-up actions of any kind at the request of any federal state or local governmental entity, or at the request of any other person or entity.

(d) Except as set forth on Section 5.9 of the DZI Disclosure Schedule, neither DZI nor any subsidiary uses, or has used, any Underground Storage Tanks, and there are not now nor, to the Knowledge of the Sellers, have there ever been, any Underground Storage Tanks on any of the Real Property. For purposes of this Section 5.9, the term "Underground Storage Tanks" shall have the meaning given it in the Resource Conservation and Recovery Act (42 U.S.C. Sec.Sec. 6901, et seq.).

(e) Except as set forth in Section 5.9 of the DZI Disclosure Schedule, there are no laws, regulations, ordinances, licenses, permits or orders relating to environmental or worker safety matters requiring any work, repairs, construction or capital expenditures with respect to the assets or properties of DZI or any of its subsidiaries.

Section 5.10(A) Employee Benefit Plans. Except as set forth in Section 5.10(A) of the DZI Disclosure Schedule (which Section 5.10(A) of the DZI Disclosure Schedule the parties acknowledge that the Sellers shall deliver within five business days from the date of this Agreement):

(a) (i) Each employee benefit plan, including but not limited to those plans as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), maintained currently or in the past by DZI or any of its subsidiaries, (ii) each employee benefit plan for which DZI or any of its subsidiaries could incur liability under Section 4069 of ERISA in the event such plan has been or were to be terminated and (iii) each plan in respect of which DZI or any subsidiary thereof could incur liability under Section 4212(c) of ERISA (collectively the "Benefit Plans") is now and always has been operated and administered in accordance with all applicable requirements of ERISA, the Internal Revenue Code of 1986, as amended (the "Code") and the terms of such benefit plans, in all material respects. No legal action, suit or claim is pending or, to the Knowledge of the Sellers, threatened with respect to any Benefit Plan and, to the Knowledge of the Sellers, no fact or event exists that could give rise to any such action, suit or claim. The terms and conditions of each Benefit Plan conform in all material respects with all applicable provisions of ERISA and the Code. Each Benefit Plan which is an employee pension benefit plan, as defined in Section 3(2) of ERISA, and which is intended to be "qualified" within the meaning of Section 401(a) of the Code ("Pension Plan"), has been determined by the Internal Revenue Service to be so qualified, and, to the Knowledge of the Sellers, no fact or event has occurred since the date of such determination by the Internal Revenue Service to adversely affect the qualified status of any such Benefit Plans.

(b) There has been no prohibited transaction (within the meaning of Section 406 of ERISA or Section 4975 of the Code) with respect to any Benefit Plan which would have a DZI Material Adverse Effect. Neither DZI nor any of its subsidiaries has incurred any liability for any penalty or tax arising under Section 4971, 4972, 4980, 4980B or 6652 of the Code or any liability under Section 502 of ERISA, and, to the Knowledge of the Sellers, no fact or event exists which could give rise to any such liability. None of the Pension Plans which is subject to Title IV of ERISA has completely or partially terminated, or been the subject of a reportable event as defined in Section 4043 of ERISA. No liability under or arising out of or by operation of Subtitle D of Title IV of ERISA has been incurred by DZI or any of its subsidiaries with respect to a Pension Plan and no fact or event exists which would give rise to such liabilities.

(c) The aggregate amount of unfunded benefit liabilities under all Pension Plans which are defined benefit pension plans did not, as of the latest valuation date for such plans, exceed \$1,000,000. No Pension Plan which is a defined benefit pension plan has incurred any accumulated funding deficiency (whether or not waived) as defined in Section 412 of the Code.

(d) There are no multi-employer plans, as defined in Section 4001(a)(3) of ERISA, to which DZI or any of its subsidiaries either contributes or has had an obligation to contribute during the prior five years, or under which DZI or any of its subsidiaries has any present or future obligation or liability.

Section 5.10(B) Taxes. Except as set forth in Section 5.10(B) of the DZI Disclosure Schedule (which Section 5.10(B) of the DZI Disclosure Schedule the parties acknowledge that the Sellers shall deliver within five business days from the date of this Agreement):

(a) Except for any breach or inaccuracy of the following representations and warranties which would not have a DZI Material Adverse Effect, (i) all returns and reports in respect of Taxes

required to be filed with respect to DZI and each subsidiary (including the consolidated federal income tax return of DZI and any state Tax return that includes DZI or any subsidiary thereof on a consolidated or combined basis) have been timely filed; (ii) all Taxes required to be shown on such returns and reports or otherwise due have been timely paid; (iii) all such returns and reports (insofar as they relate to the activities or income of DZI or any subsidiary thereof) are true, correct and complete in all material respects; (iv) no adjustment relating to such returns has been proposed formally or informally by any Tax authority and, to the Knowledge of Sellers, no basis exists for any such adjustment; (v) there are no pending or, to the Knowledge of Sellers, threatened actions or proceedings for the assessment or collection of Taxes against DZI or any subsidiary thereof or (insofar as either could result in liability of DZI or any subsidiary thereof on the basis of joint and/or several liability) any corporation that was included in the filing of a return with DZI or any subsidiary thereof on a consolidated or combined basis; (vi) there are no outstanding waivers or agreements extending the statutes of limitations for any period with respect to any Tax to which DZI or any subsidiary may be subject; (vii) no consent under Section 341(f) of the Code has been filed with respect to DZI or any subsidiary thereof; (viii) there are no Tax liens on any assets of DZI or any subsidiary thereof; (ix) neither DZI nor any subsidiary thereof is a party to any agreement or arrangement that would result, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code; (x) no acceleration of the vesting schedule for any property that is substantially unvested within the meaning of the regulations under Section 83 of the Code will occur in connection with the transactions contemplated by this Agreement; (xi) each subsidiary of DZI has been and continues to be a member of the affiliated group (within the meaning of Section 1504(a)(1) of the Code) for which DZI files a consolidated return as the common parent, and has not been includible in any other

consolidated return for any taxable period for which the statute of limitations has not expired; (xii) neither DZI nor any subsidiary thereof is subject to any accumulated earnings tax penalty or personal holding company tax; (xiii) neither DZI nor any subsidiary thereof is a party to any tax sharing or tax allocation agreement or arrangement; and (xiv) adequate reserves are provided in the financial statements included in the 1994 Form 10-K of DZI to satisfy all liability of DZI and its subsidiaries for Taxes for all periods through December 31, 1994.

(b) "Tax" or "Taxes" means any and all taxes, fees, levies, duties, tariffs, imposts, and other charges of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any government or taxing authority, including, without limitation: taxes or other charges on or with respect to income, franchises, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers' compensation, unemployment compensation, or net worth; taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, value added, or gains taxes; license, registration and documentation fees; and customs duties, tariffs, and similar charges.

#### ARTICLE VI

##### Representations and Warranties of Viacom

In order to induce the Sellers to enter into this Agreement and to consummate the transactions contemplated hereby, Viacom makes the representations and warranties set forth below, each of which is independently relied upon by the Sellers regardless of any other investigation made or information obtained by the Sellers, and each of which is correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Article VI).



Section 6.1 Organization, Power, Authority, Authorization and Binding Obligation. (a) Viacom is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation and has all requisite power and authority necessary to enter into this Agreement and to carry out the transactions and agreements contemplated hereby.

(b) The execution, delivery and performance of this Agreement and all other agreements, instruments and documents contemplated hereby to be executed by Viacom and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action of Viacom. This Agreement and all other agreements and instruments contemplated hereby to be executed by Viacom are (or upon execution and delivery thereof by Viacom will be) valid and binding agreements of Viacom enforceable against Viacom in accordance with their respective terms except (i) as the same may be limited by applicable bankruptcy, insolvency, moratorium or similar laws of general application relating to or affecting creditors' rights, including the effect of statutory or other laws regarding fraudulent conveyances and preferential transfers, and (ii) for the limitations imposed by general principles of equity.

Section 6.2 No Breach; Consents and Approvals. The execution and delivery of this Agreement by Viacom do not, and the consummation of the transactions contemplated hereby will not, (i) violate or conflict with the certificate of incorporation or the bylaws of Viacom or (ii) constitute a breach or default (or an event that with notice or lapse of time or both would become a breach or default) of, or give rise to any lien, third party right of termination, cancellation, material modification or acceleration, under any material agreement, understanding or undertaking to which Viacom or any of its subsidiaries is a party or by which Viacom or any of its subsidiaries is bound or violate or conflict with any law, rule, regulation, judgment, decree or order to which it or any of them is subject, except as would not prevent or delay Viacom from performing its

obligations under this Agreement. Neither the execution and delivery of this Agreement by Viacom nor the consummation of the transactions contemplated hereby will require any consent, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority, any court or tribunal or any other person or entity, except (i) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not prevent or delay Viacom from performing its obligations under this Agreement, (ii) the filing of reports required under the Exchange Act, (iii) filings required by the HSR Act, (iv) filings required to be made by the Sellers or their affiliates, (v) filings required to be made under any applicable blue sky laws and regulations, and (vi) filings required by the American Stock Exchange, Inc., if any.

Section 6.3 Purchase for Investment. Viacom is acquiring the Shares for investment and not with a view to any distribution thereof in contravention of the Securities Act of 1933.

#### ARTICLE VII

##### Additional Covenants of the Sellers

Section 7.1 Reasonable Efforts. The Sellers will use their reasonable efforts to cause to be satisfied as soon as practicable and prior to the Closing Date all of the conditions set forth in Article IX to the obligations of Viacom to consummate transactions contemplated by this Agreement to occur on the Closing Date.

Section 7.2 No Disclosure. Without the prior written consent of Viacom, none of the Sellers will, prior to the Closing Date, disclose any term or condition of this Agreement to any person or entity except that such disclosure may be made if required pursuant to the requirements of law (in which case the Seller making disclosure shall consult with Viacom prior to making such disclosure).

Section 7.3 Antitrust Law Compliance. Each of the Sellers has caused to be prepared and filed with the Federal Trade Commission and the United States Department of Justice the notification required to be filed with respect to the transactions contemplated hereby under the HSR Act or any rules and regulations promulgated thereunder. Each of the Sellers has caused such filing, and shall cause any future filings made by it or on its behalf, to be true and accurate in all material respects and responsive to the requirements of the HSR Act and any such rules and regulations. Each of the Sellers shall use its reasonable efforts to obtain an early termination of the applicable waiting period, and shall make any further filings pursuant thereto that may be necessary. Each of the Sellers agrees to make available to Viacom such information relative to it or DZI as may be required for the preparation of such notification or filings by Viacom under the HSR Act and any rules or regulations promulgated thereunder.

Section 7.4 Conduct Prior to Closing. The Sellers will not, and will use their reasonable efforts, consistent with their fiduciary duties to the stockholders of DZI, to cause DZI not to, take any action, or omit to take any action, the result of which would cause any of the representations and warranties made by the Sellers herein to become untrue.

#### ARTICLE VIII

##### Additional Covenants of Viacom

Section 8.1 Reasonable Efforts. Viacom will use its reasonable efforts to cause to be satisfied as soon as practicable and prior to the Closing Date all of the conditions set forth in Article X to the obligations of the Sellers to consummate the transactions contemplated by this Agreement to occur on the Closing Date.

Section 8.2 No Disclosure. Without the prior written consent of the Sellers, Viacom will not, prior to the Closing Date, disclose any term or condition of this Agreement to any person or entity except that such disclosure may be made if required pursuant to the requirements of law (in which case Viacom shall consult with the Sellers prior to making such disclosure).

Section 8.3 Antitrust Law Compliance. Viacom has prepared and filed with the Federal Trade Commission and the United States Department of Justice the notification required to be filed with respect to the transactions contemplated hereby under the HSR Act or any rules and regulations promulgated thereunder. Viacom has caused such filing, and shall cause any future filing made by it or on its behalf, to be true and accurate in all material respects and responsive to the requirements of the HSR Act and any such rules and regulations. Viacom shall use its reasonable efforts to obtain an early termination of the applicable waiting period, and shall make any further filings pursuant thereto that may be necessary. Viacom agrees to make available to the Sellers such information relative to it as may be required for the preparation of such notification or filings by or on behalf of the Sellers under the HSR Act and any rules or regulations promulgated thereunder.

Section 8.4 Conduct Prior to Closing. Viacom will not, and will cause its subsidiaries not to, take any action, or omit to take any action, the result of which would cause any of the representations and warranties made by it herein to become untrue.

#### ARTICLE IX

##### Conditions to the Obligations of Viacom

The obligations of Viacom to consummate the purchase of the Shares shall be subject to the fulfillment at or prior to the Closing Date of each of the following conditions:

Section 9.1 Accuracy of Representations and Warranties and Compliance with Obligations. The representations and warranties of the Sellers contained in this Agreement shall have been true and correct in all material respects at and as of the date hereof, and they shall be true and correct in all material respects at and as of the Closing Date, with the same force and effect as though made at and as of that time. Each of the Sellers shall have performed and complied in all material respects with all of each of their respective obligations required by this Agreement to be performed or complied with at or prior to the Closing Date. Each of the Sellers shall have delivered to Viacom certificates, dated as of the Closing Date and signed by an authorized officer of such Seller in the case of a Seller that is a corporation, or a trustee of such Seller in the case of a Seller that is a trust, certifying that the representations and warranties of such Seller are thus true and correct in all material respects and that all such obligations of such Seller have been thus performed and complied with in all material respects.

Section 9.2 Certified Resolutions. DKB shall have delivered to Viacom copies of the resolutions adopted by the board of directors of DKB authorizing the transactions contemplated by this Agreement, certified in each case as of the Closing Date, by the Secretary or an Assistant Secretary of DKB. Each of the KFF Trust and the BJJ Trust shall have delivered to Viacom certified copies of actions taken by its advisory committee authorizing the transactions contemplated by this Agreement.

Section 9.3 No Adverse Litigation. (a) No action, suit, investigation or proceeding shall have been instituted by any person not affiliated with any of the parties hereto or by any governmental agency to restrain, prohibit, invalidate, or otherwise challenge the legality of the purchase of the Shares or any other transaction contemplated hereby, which action, suit, investigation or proceeding will have resulted in a temporary restraining order, preliminary or

permanent injunction, or other order preventing consummation of the purchase of the Shares or any other transaction contemplated hereby, and which order or injunction is then in effect.

(b) No action, suit, investigation or proceeding shall have been instituted by any person not affiliated with any of the parties hereto or by any governmental agency to collect damages arising out of the purchase of the Shares or any other transaction contemplated hereby, which action, suit, investigation or proceeding is reasonably likely to succeed and is reasonably likely to result in a material liability on the part of Viacom or any of its respective affiliates.

Section 9.4 HSR Act Waiting Period. The waiting period and any extension thereof, imposed by the HSR Act with respect to the transactions contemplated by this Agreement shall have expired or been terminated.

Section 9.5 No Material Adverse Change. Since December 31, 1994, there shall not have been any material adverse change in the assets, business, financial condition, or operations of DZI and its subsidiaries considered as one enterprise.

Section 9.6 Outstanding Shares. The Sellers shall have caused DZI to deliver a certificate as of the opening of business on the Closing Date certifying the number of shares issued by DZI between the date of this Agreement and the Closing Date.

Section 9.7 Management Services Agreement. The Management Services Agreement shall be in full force and effect and the parties thereto shall be in compliance with their obligations thereunder (including compliance as of the "Effective Date" (as defined in the Management Services Agreement) with Sections 2(d) and 17 thereunder).

Section 9.8 Outstanding Shares. The Sellers shall have caused DZI to deliver a certificate certifying the number of issued and outstanding shares of Common Stock as of the opening of business on the Closing Date.

## ARTICLE X

### Conditions to Obligations of the Sellers

The obligations of the Sellers to consummate the sale of the Shares shall be subject to the fulfillment at or prior to the Closing Date of each of the following conditions:

Section 10.1 Accuracy of Representations and Warranties and Compliance with Obligations. The representations and warranties of each of Viacom contained in this Agreement shall have been true and correct in all material respects at and as of the date hereof, and they shall be true and correct in all material respects at and as of the Closing Date with the same force and effect as though made at and as of that time. Viacom shall have performed and complied in all material respects with all of its respective obligations required by this Agreement to be performed or complied with at or prior to the Closing Date. Viacom shall have delivered to the Sellers a certificate, dated as of the Closing Date and signed by an authorized officer of Viacom, certifying that the representations and warranties of Viacom are thus true and correct in all material respects and that all such obligations of Viacom have been thus performed and complied with in all material respects.

Section 10.2 Certified Resolutions. Viacom shall have delivered to the Sellers copies of the resolutions adopted by its board of directors authorizing the transactions contemplated by this Agreement, certified as of the Closing Date by the Secretary or an Assistant Secretary of Viacom.

Section 10.3 No Adverse Litigation. (a) No action, suit, investigation or proceeding shall have been instituted by any person not affiliated with any of the parties hereto or by any governmental agency to restrain, prohibit, invalidate, or otherwise challenge the legality of the sale of the Shares or any other transaction contemplated hereby, which action, suit, investigation or proceeding will have resulted in a temporary restraining order, preliminary or permanent injunction,

or other order preventing consummation of the sale of the Shares or any other transaction contemplated hereby, and which order or injunction is then in effect.

(b) No action, suit, investigation or proceeding will have been instituted by any person not affiliated with any of the parties hereto or by any governmental agency to collect damages arising out of the sale of the Shares or any other transaction contemplated hereby, which action, suit, investigation or proceeding is reasonably likely to succeed and is reasonably likely to result in a material liability on the part of the Sellers, DZI or any of their respective affiliates.

Section 10.4 HSR Act Waiting Period. The waiting period and any extension thereof imposed by the HSR Act with respect to the transactions contemplated by this Agreement shall have expired or been terminated.

Section 10.5 Management Services Agreement. The Management Services Agreement, shall be in full force and effect and the parties thereto shall be in compliance with their obligations thereto.

#### ARTICLE XI

##### Certain Actions After the Closing and Additional Agreements

Section 11.1 Execution of Further Documents. From and after the Closing, upon the reasonable request of Viacom, any of the Sellers shall execute, acknowledge and deliver all such further transfers, assignments, conveyances, endorsements, consents and assurances as may be required to convey and transfer to and vest in Viacom and protect its right, title and interest in the Shares from such Seller, and as may be appropriate otherwise to carry out the transactions contemplated by this Agreement to which such Seller is a party.



Section 11.2 Holdback and Option Agreement. (a) During the Holdback Period (as defined below), the Sellers jointly agree that the Sellers and the Guarantors will hold and will not directly or indirectly sell, transfer, assign, pledge or otherwise dispose of or encumber (each, a "Transfer") an aggregate of 2,210,695 (which number shall be reduced by (a) the product of 49.99% and the result obtained by subtracting the aggregate number of shares of Common Stock issued by the Company in connection with the pending acquisitions set forth in Section 5.3 of the DZI Disclosure Schedule from 500,000; and (b) on the anniversary of the date of this Agreement (the "Anniversary Date"), the result obtained by subtracting (i) the difference between 49.99% of the outstanding shares of Common Stock on the Anniversary Date and 28,044,001, from (ii) the number of shares of Common Stock purchased by Viacom pursuant to the Top-Up Option up to and including the Anniversary Date (the adjustments in (a) and (b) are hereinafter collectively referred to as the "Adjustments") shares of Common Stock (the "Holdback Shares"), other than (i) pursuant to a tender or exchange offer for substantially all the outstanding shares of DZI Common Stock or in a merger transaction in which substantially all the outstanding shares of DZI Common Stock are converted into other consideration (each, a "Stockholder Transaction"), or (ii) a transfer to any affiliate of any such Seller or Guarantor (provided that the restrictions of this Section 11.2 will continue to be applicable to the affiliate after such Transfer and such affiliate shall assume such Seller's obligations under this Article XI with respect to any Holdback Shares so transferred in writing). For purposes of this Section 11.2(a), the term "Holdback Period" shall mean the period commencing on the date hereof and ending upon the earliest to occur of (i) the termination of the Management Services Agreement in accordance with its terms, (ii) the second anniversary of the date of this Agreement, or (iii) a Transfer pursuant to a Stockholder Transaction.

(b) The Sellers hereby jointly and severally grant to Viacom an irrevocable option to purchase the number of Holdback Shares (up to a maximum of 2,210,695 (subject to the Adjustments) shares of Common Stock) necessary to increase Viacom's ownership interest in the outstanding shares of Common Stock of DZI up to 49.99% (the "Top-Up Option"). The exercise price per share (the "Exercise Price") of the Top-Up Option shall be equal to 75% of the Average Closing Price (as defined below); provided that notwithstanding anything to the contrary elsewhere herein, the exercise price of the Top-Up Option shall never be less than \$6.50 or more than \$12.50 per share. The Top-Up Option shall be exercisable in whole or in part at any time and from time to time during the Holdback Period, except during a bona fide Stockholder Transaction of which Viacom has knowledge. Upon the expiration of the Holdback Period, the Top-Up Option and all rights and obligations relating thereto shall terminate. For purposes of this Section 11.2(b), the term "Average Closing Price" shall mean the average closing price of the shares of Common Stock on the Nasdaq National Market (or, if the Common Stock is not then traded on the Nasdaq National Market, the composite closing price of the shares of Common Stock on the securities exchanges on which the Common Stock may then be traded), as reported in The Wall Street Journal (Midwest Edition), on the twenty business days ending on the second business day before the date of the Option Closing (as defined below) of any exercise of the Top-Up Option.

(c) In the event that Viacom elects to exercise all or any portion of the Top-Up Option, Viacom shall give written notice of exercise to the Sellers (the "Exercise Notice"). The closing of the purchase and sale of the Holdback Shares pursuant to an exercise of the Top-Up Option (the "Option Closing") shall occur at such place and time and on such date as shall be specified by Viacom in the Exercise Notice; provided, however, that the parties acknowledge that such Closing may be conducted by facsimile, overnight courier, wire transfer or similar means; and provided,

further, that in no event shall the Option Closing occur earlier than 10 days or later than 15 days after receipt of the Exercise Notice by the Sellers. At the Option Closing (i) Viacom shall pay to the Sellers the aggregate Exercise Price for the number of Holdback Shares being purchased as set forth in the applicable Exercise Notice by wire transfer of immediately available funds, and (ii) the Sellers will deliver to Viacom a stock certificate or stock certificates representing the shares of Common Stock being purchased pursuant to the exercise of the Top-Up Option, duly endorsed in blank or accompanied by stock powers executed in blank, in form satisfactory to Viacom and with all required stock transfer tax stamps affixed.

(d) In the event of any change in the outstanding shares of Common Stock by reason of any stock dividend, stock split, reverse stock split, recapitalization, combination, exchange of shares, merger, consolidation, reorganization or the like or any other change in the corporate or capital structure of DZI that would have the effect of altering any party's rights or obligations under this Section 11.2, the number and kind of shares of Common Stock or other securities of DZI subject to the first sentence of this Section 11.2(a) and the Top-Up Option and the Exercise Price shall be adjusted appropriately so as to restore each party to its rights hereunder.

(e) The parties hereto agree that irreparable damage would occur in the event any provision of this Article XI is not performed in accordance with the terms hereof and that Viacom shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

Section 11.3 Right of First Offer. (a) During the two-year period commencing on the date of this Agreement, the Sellers jointly agree that the Sellers will hold and will not directly or indirectly sell or otherwise dispose of (a "Sale") an aggregate of 1,205,156 shares of Common Stock, plus any Holdback Shares no longer subject to the provisions of Section 11.2 hereof

(together, the "Held Shares"), except in compliance with this Section 11.3. If at any time a Seller wishes to make a Sale of any of its Held Shares to any Person, it shall deliver to Viacom by facsimile to the principal offices of Blockbuster (Attention: General Counsel) a written notice of its desire to make such Sale (an "Offer Notice"). The Offer Notice shall specify such Seller's desire to make such Sale (which shall be for cash only), the number of Held Shares such Seller wishes to sell (the "Offered Shares") and the cash price per Held Share at which, and any other terms upon which, such Seller proposes to sell the Offered Shares (the "Offer Terms").

(b) The receipt of an Offer Notice by Viacom from a Seller shall constitute an offer by such Seller to sell to Viacom (or its affiliates) the Offered Shares at the cash price and upon the other terms set forth in the Offer Terms. In the case of DKB during the "Restricted Period" (as defined in the Co-Sale Agreement), such offer shall be irrevocable for five business days after receipt of such Offer Notice by Viacom. In the case of DKB not during the Restricted Period and in the case of the KFF Trust and the BJB Trust, such offer shall be irrevocable for three hours (if the market value of the Offered Shares is equal to or less than \$5,000,000) or for 24 hours (if the market value of the Offered Shares is more than \$5,000,000) after receipt of such Offer Notice by Viacom (the respective period during which the offer shall remain irrevocable is hereinafter referred to as the "Waiting Period"). During the Waiting Period, Viacom (or its affiliate) shall have the right to accept such offer as to all (but not less than all) of the Offered Shares by giving a written notice of acceptance (the "Notice of Acceptance") to such Seller prior to the expiration of the Waiting Period. If Viacom (or its affiliate) so accepts a Seller's offer (an "Accepting Party"), such Person will purchase the Offered Shares for cash from such Seller, at the cash price and upon the other terms set forth in the Offer Terms.

(c) The consummation of any such purchase by and sale to the Accepting Party shall take place on such date, not later than five business days after receipt of the Notice of Acceptance from the Accepting Party by a Seller, as the Accepting Party and such Seller shall select. Upon the consummation of such purchase and sale, such Seller shall deliver to the Accepting Party certificates evidencing the Offered Shares purchased and sold duly endorsed in blank or accompanied by written instruments of transfer in form reasonably satisfactory to the Accepting Party duly executed by such Seller.

(d) In the event that (i) Viacom shall have received an Offer Notice from a Seller but such Seller shall not have received from Viacom (or from Viacom's affiliate) a Notice of Acceptance as to the Offered Shares prior to the expiration of the Waiting Period following receipt of such Offer Notice or (ii) the Accepting Party shall have given a Notice of Acceptance to such Seller but shall have failed to consummate, other than as a result of the fault of such Seller, a purchase of the Offered Shares with respect to which such Notice of Acceptance was given within five business days after receipt of the Notice of Acceptance by such Seller, then such Seller may make a Sale of such Offered Shares so long as all the Offered Shares are sold or otherwise disposed of (A) within 90 days after the date of receipt of such Offer Notice by Viacom and (B) at, or in excess of, the price and otherwise on terms no less favorable to the purchaser thereof than the Offer Terms; provided, however, that in the case of subsection (d)(ii) above, Viacom shall be responsible for the amount that the average of the high and low prices of the Common Stock (as quoted in The Wall Street Journal) on the fifth business day after receipt of the Notice of Acceptance by such Seller is less than the bid price of the Common Stock at the time of receipt of the Notice of Acceptance by such Seller.

ARTICLE XII

Indemnification

Section 12.1 Agreement by the Sellers to Indemnify.

(a) Subject to the limitations contained in this Section 12.1, each of the Sellers, jointly and severally agrees that such Seller will defend, indemnify and hold Viacom and its respective affiliates harmless in respect of the aggregate of all indemnifiable damages of Viacom. For this purpose, "indemnifiable damages" of Viacom means the aggregate of all expenses, damages, losses, costs, deficiencies and liabilities (including related and reasonable counsel fees and expenses, and compensatory and demonstrable consequential damages) incurred or suffered by Viacom as a direct result of (i) any inaccurate representation or warranty made by such Seller in or pursuant to this Agreement, or (ii) any default in the performance of any of the covenants or agreements made by such Seller in this Agreement; provided, however, that any such expenses, damages, losses, costs, deficiencies and liabilities resulting from any item or items relating to a common set of facts or circumstances in connection with a breach of any representation or warranty made herein shall not be considered "indemnifiable damages" unless the amount involved is greater than \$10,000; provided, further, however that "indemnifiable damages" shall not include any expenses, damages, losses, costs, deficiencies or liabilities incurred as a result of any inaccuracy, breach or default of any provision of Sections 5.10(A) or 5.10(B) hereof.

(b) Each of the representations and warranties made by the Sellers in this Agreement shall survive until and including the first anniversary of the Closing Date, and thereafter all such representations and warranties shall be extinguished; provided, however, the representations and warranties made by the Sellers in Article IV hereof shall in each case survive forever, the representations and warranties made by the Sellers in Section 5.8 shall survive for the applicable

statute of limitations period, except to the extent that other representations and warranties in this Agreement reference compliance with specific laws, regulations or orders, which such representations and warranties shall survive until and including the first anniversary of the Closing Date, the representations and warranties made by the Sellers in Section 5.9 shall survive for a period of seven years and six months from the Closing Date, and the representations and warranties made by the Sellers in Sections 5.10(A) or 5.10(B) shall survive through the Closing. No claim for the recovery of indemnifiable damages based upon the inaccuracy of such representations and warranties may be asserted by Viacom after such representations and warranties shall be thus extinguished; provided, however, that claims first asserted within the applicable period (whether or not the amount of any such claim has become ascertainable within such period) shall not thereafter be barred.

(c) The Sellers shall only be liable for any claim for indemnifiable damages arising out of any inaccuracy of any representation or warranty contained in Article V hereof if the aggregate amount of all such indemnifiable damages payable by all Sellers exceeds \$500,000, in which case the Sellers shall be liable for all indemnifiable damages arising out of such inaccuracies, including the first \$500,000. No Seller shall be liable for any claim for indemnifiable damages arising out of the inaccuracy of any representation and warranty or the default in the performance of any covenant or agreement made by any other Seller as to itself only. The aggregate amount of indemnifiable damages payable by any Seller shall not exceed such Seller's share of the Purchase Price.

(d) The remedies provided for in this Section 12.1 shall be the sole monetary remedy available to Viacom under this Agreement, and there shall be no remedy (other than with respect to Section 9.1 hereof) available to Viacom under this Agreement for any inaccuracy, breach or default of any provisions of Sections 5.10(A) and 5.10(B) hereof.

Section 12.2 Agreement by Viacom to Indemnify.

(a) Subject to the limitations contained in this Section 12.2, Viacom agrees that it will defend, indemnify and hold the Sellers and their respective affiliates harmless in respect of the aggregate of all indemnifiable damages of the Sellers. For this purpose, "indemnifiable damages" of the Sellers means the aggregate of all expenses, losses, costs, deficiencies, liabilities and damages (including related and reasonable counsel fees and expenses, and compensatory and demonstrable consequential damages) incurred or suffered by the Sellers as a direct result of any (i) inaccurate representation or warranty made by Viacom in or pursuant to this Agreement, or (ii) default in the performance of any of the covenants or agreements made by Viacom in this Agreement; provided, however, that any such expenses, damages, losses, costs, deficiencies and liabilities resulting from any item or items relating to a common set of facts or circumstances in connection with a breach of any representation or warranty made herein shall not be considered "indemnifiable damages" unless the amount involved is greater than \$10,000.

(b) Each of the representations and warranties made by Viacom in this Agreement shall survive forever.

(c) Viacom shall be liable only for any claim for indemnifiable damages arising out of any inaccuracy of any representation or warranty if the aggregate amount of all such indemnifiable damages exceeds \$500,000, in which case Viacom shall be liable for all indemnifiable damages arising out of such inaccuracies, including the first \$500,000. The aggregate amount of indemnifiable damages payable by Viacom to all Sellers shall not exceed the Purchase Price.

(d) The remedies provided for in this Section 12.2 shall be the sole monetary remedy available to the Sellers under this Agreement or otherwise.

Section 12.3 Indemnification Procedures for Third Party Claims. In the event that subsequent to the Closing Date any claim is asserted by a third party against a party hereto as to



which such party is entitled to indemnification hereunder, such party (the "indemnified party") shall as promptly as possible notify the party obligated to indemnify it (the "indemnifying party") thereof in writing. No delay on the part of the indemnified party to notify the indemnifying party of a claim shall relieve any obligation of the indemnifying party to indemnify the indemnified party with respect to such claim unless (and then solely to the extent) the indemnifying party is prejudiced in its ability to defend against the subject claim by the delay in such notification. The indemnifying party shall have the right, upon written notice to the indemnified party within ten (10) days after receipt from the indemnified party of notice of such claim, to conduct at its expense and with counsel of its choice reasonably satisfactory to the indemnified party the defense against such claim in its own name, or, if necessary, in the name of the indemnified party. In the event that the indemnifying party shall fail to give such notice, it shall be deemed to have elected not to conduct the defense of the subject claim, and in such event the indemnified party shall have the right to conduct such defense and to compromise and settle the claim without prior consent of the indemnifying party, and the indemnifying party will remain responsible for all indemnifiable damages suffered by the indemnified party relating to the subject claim. In the event that the indemnifying party does elect to conduct the defense of the subject claim, the indemnified party will cooperate with and make available to the indemnifying party such assistance and materials as may be reasonably requested by it, all at the expense of the indemnifying party, and the indemnified party shall have the right at its expense to participate in the defense, provided that the indemnified party shall have the right to compromise and settle the claim only with the prior written consent of the indemnifying party (such consent not to be unreasonably withheld). The indemnifying party will not consent to the entry of any judgment with respect to a subject claim or enter into any settlement with respect thereto which does not include a provision whereby the plaintiff or claimant

releases the indemnified party from all liability with respect thereto or in cases involving equitable relief, puts the indemnified party in the same position as it was prior to the initiation of the claim, without the prior written consent of the indemnified party (such consent not to be unreasonably withheld so long as such settlement or judgment only involves the payment of money damages).

Section 12.4 Credit Provisions. In the event that, notwithstanding the limitations contained in this Article XII, an indemnifying party nevertheless becomes liable to an indemnified party hereunder, the indemnifying party shall be entitled to a credit or offset against any such liability of an amount equal to the value of any net tax benefit realized by the indemnified party in connection with the loss or damage suffered by the indemnified party which forms the basis of the indemnifying party's liability hereunder and the receipt of the indemnification payment by the indemnified party.

#### ARTICLE XIII

##### Miscellaneous

Section 13.1 [Intentionally omitted.]

Section 13.2 Brokers' Commission. Each Seller will indemnify and hold harmless Viacom from the commission, fee or claim of any person, firm or corporation employed or retained or claiming to be employed or retained by such Seller to bring about, or to represent it in, the transactions contemplated hereby. Viacom will indemnify and hold harmless each of the Sellers from the commission, fee or claim of any person, firm or corporation employed or retained or claiming to be employed or retained by Viacom to bring about, or to represent it in, the transactions contemplated hereby.

Section 13.3 Amendment and Modification. The parties hereto may amend, modify and supplement this Agreement in such manner as may be agreed upon by them in writing.

Section 13.4 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assignees, heirs and legal representatives. Nothing in this Agreement shall confer upon any person, firm or corporation not a party to this Agreement, or the legal representatives of such person, firm or corporation, any rights or remedies of any nature or kind whatsoever by reason of this Agreement.

Section 13.5 Entire Agreement. This Agreement, the DZI Disclosure Schedule and the Exhibits attached hereto contain the entire agreement of the parties hereto with respect to the purchase of the Shares and the Holdback Shares and the other transactions contemplated herein and supersede all prior understandings and agreements of the parties with respect to the subject matter hereof.

Section 13.6 Headings. The descriptive headings in this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

Section 13.7 Execution in Counterpart. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

Section 13.8 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given when received, whether personally, by telegram, telex, facsimile transmission (followed by regular mail) or registered or certified mail (return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

If to Viacom,  
addressed to:

Blockbuster Entertainment Group  
One Blockbuster Plaza  
Ft. Lauderdale, Florida 33301  
Attention: General Counsel  
Fax No.: (305) 832-3909

with a copy to: Shearman & Sterling  
599 Lexington Avenue  
New York, New York 10022  
Attention: Creighton Condon  
Fax No.: (212) 848-7179

If to any of the Sellers,  
addressed to: Flynn Enterprises, Inc.  
676 North Michigan Avenue  
Suite 4000  
Chicago, Illinois 60611  
Attention: General Counsel  
Fax No.: (312) 280-3730

with a copy to: Pedersen & Houpt  
161 North Clark Street  
Suite 3100  
Chicago, Illinois 60601  
Attention: James K. Stucko  
Fax No.: (312) 641-6895

Section 13.9 Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Delaware applicable to contracts made and to be performed therein, without regard to the conflicts of laws principles thereof.

Section 13.10 Publicity. No press release or other public announcement related to this Agreement or the transactions contemplated hereby will be issued by any party hereto without the prior approval of the other parties, except that any party may make such public disclosure which it believes in good faith to be required by law (in which case such party will consult with the other parties prior to making such disclosure).

Section 13.11 Termination. Anything to the contrary herein notwithstanding, this Agreement may be terminated and the transactions contemplated hereby may be abandoned:

(i) by the mutual written consent of all of the parties hereto at any time prior to the Closing Date;

(ii) by the Sellers in the event of the material breach by Viacom of any provision of this Agreement (it being agreed that if the breach in question is a breach by Viacom of any representation or warranty contained in Article VI of this Agreement, such breach will not be considered a material breach unless it would result in Viacom being unable to consummate the transactions contemplated hereby), which breach is not remedied by Viacom within 30 days after receipt of notice thereof from the Sellers;

(iii) by Viacom in the event of the material breach by any of the Sellers of any provision of this Agreement (it being agreed that if the breach in question is a breach by the Sellers of any representation or warranty contained in Article V of this Agreement, such breach will not be considered a material breach unless it would result in the Sellers being unable to consummate the transactions contemplated hereby or in a DZI Material Adverse Effect, which breach is not remedied by the Sellers within 30 days after receipt of the notice thereof from Viacom; or

(iv) by any party hereto if the Closing has not taken place by June 30, 1995. If this Agreement is terminated pursuant to clause (a)(i) above, no party shall have any liability for any cost, expense, loss of anticipated profit or any further obligation for breach of warranty or otherwise to any other party to this Agreement. Any termination of this Agreement pursuant to clauses (a) (ii), (iii) or (iv) above shall be without prejudice to any other rights or remedies of the respective parties.

Section 13.12 Expenses. Whether or not the transactions contemplated hereby are consummated, all costs and expenses incurred in connection with the transactions contemplated hereby shall be paid by the party incurring such expenses.

Section 13.13 Notice of Developments. From time to time until or on the Closing Date, Viacom, on the one hand, and the Sellers, on the other hand, shall promptly give written notice to the other of any matter hereafter arising of which the notifying party becomes aware which, if existing or occurring at the date of this Agreement, would have been required to be disclosed herein. However, no such disclosure made pursuant to this Section 13.13 shall be deemed to supplement any disclosure schedule or cure any breach of any representation, warranty or covenant.

Section 13.14 Guarantees. Donald F. Flynn hereby unconditionally guarantees the full and prompt payment of the liabilities and the performance of all of the obligations of, and the accuracy of the representations and warranties made by, DKB hereunder. Kevin F. Flynn hereby unconditionally guarantees the full and prompt payment of the liabilities and the performance of all of the obligations of, and the accuracy of the representations and warranties made by, the KFF Trust hereunder. Brian J. Flynn hereby unconditionally guarantees the full and prompt payment of the liabilities and the performance of all of the obligations of, and the accuracy of the representations and warranties made by, the BJF Trust hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement

to be duly executed as of the day and year first above written.

SELLERS:

DKB, INC.

VIACOM INC.

By: /s/ Donald Flynn  
-----  
Name: Donald F. Flynn  
-----  
Title: President  
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By: /s/ Thomas W. Hawkins  
-----  
Name: Thomas W. Hawkins  
-----  
Title: Assistant Secretary  
-----

Kevin F. Flynn June, 1992 Non-Exempt Trust

By: /s/ Kevin F. Flynn  
-----  
Trustee

BLOCKBUSTER DISCOVERY  
INVESTMENT, INC.

Brian J. Flynn June, 1992 Non-Exempt Trust

By: /s/ Adam D. Phillips  
-----  
Name: Adam D. Phillips  
-----  
Title: Vice President  
-----

By: /s/ Brian J. Flynn  
-----  
Trustee

GUARANTORS:

/s/ Donald F. Flynn  
-----  
Donald F. Flynn

/s/ Kevin F. Flynn  
-----  
Kevin F. Flynn

/s/ Brian J. Flynn  
-----  
Brian J. Flynn

BLOCKBUSTER ENTERTAINMENT LOGO

VIA TELECOPIER  
-----  
(312) 616-3830  
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April 17, 1995

Discovery Zone, Inc.  
205 North Michigan Avenue  
Suite 3400  
Chicago, IL 60601  
Attn: Donald F. Flynn

Gentlemen:

This letter sets forth our agreement with respect to the purchase from Blockbuster Family Fun, Inc., a Delaware corporation (the "Seller"), of certain assets, properties and businesses of the Seller by Discovery Zone, Inc., a Delaware corporation (the "Purchaser"), for the consideration set forth herein. Such assets, properties and businesses (the "Center Assets") pertain to the ownership and operation of two (2) family entertainment centers operating under the name and mark "Block Party" (the "Centers"), the addresses of which are set forth on Exhibit A attached hereto. The parties hereto agree and acknowledge that subject to satisfaction or waiver of the conditions to closing specified in Paragraph 3 below, this letter constitutes an obligation binding on the parties hereto.

1. Purchase Price. The purchase price for the Center Assets

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will be an amount equal to the lesser of (i) out-of-pocket expenses incurred in the development and operation of the Centers and (ii) \$15,000,000.00 (the "Original Principal Balance") payable by the delivery of a promissory note (the "Note") of the Purchaser dated the date upon which the transactions contemplated hereby are consummated. The Note will have a term of ten (10) years and will accrue interest at a variable rate equal to LIBOR plus .75%.

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For purposes of this letter, "LIBOR" means the rate per annum (rounded upwards, if necessary to the next higher one hundred-thousandth of a percentage point) for deposits in United States dollars for a one-month period, which appears on the display designated at Page 3570 on the Telerate Service (or such other page as may replace Page 3750 on that service or such other service as may be nominated by the British Bankers' Association as the information vendor for the purposes of displaying British Bankers' Association Interest Settlement Rates for United States dollar deposits) and as adjusted on the first day of each calendar month following the Closing Date (as hereinafter defined)

Discovery Zone, Inc.  
April 17, 1995  
Page 2

(or if such day is not a day on which such rate is quoted, the next succeeding day on which such rate is quoted). Interest accruing on the then-outstanding principal balance of the Note will be due and payable



in arrears on the first day of each August, November, February and May following the Closing Date (each, an "Interest Payment Date"). Commencing on the third anniversary of the Closing Date, the Purchaser shall pay to the Seller on each Interest Payment Date an amount equal to the interest accruing on the Note plus the following amounts,

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which amounts will be payable in four (4) equal installments on each Interest Payment Date during any such year:

(a) During Year 4, the result obtained by multiplying the Original Principal Balance by a fraction, the numerator of which is 7 and the denominator of which is 28;

(b) During Year 5, the result obtained by multiplying the Original Principal Balance by a fraction, the numerator of which is 6 and the denominator of which is 28;

(c) During Year 6, the result obtained by multiplying the Original Principal Balance by a fraction, the numerator of which is 5 and the denominator of which is 28;

(d) During Year 7, the result obtained by multiplying the Original Principal Balance by a fraction, the numerator of which is 4 and the denominator of which is 28;

(e) During Year 8, the result obtained by multiplying the Original Principal Balance by a fraction, the numerator of which is 3 and the denominator of which is 28;

(f) During Year 9, the result obtained by multiplying the Original Principal Balance by a fraction, the numerator of which is 2 and the denominator of which is 28; and

(g) During Year 10, the result obtained by multiplying the Original Principal Balance by a fraction, the numerator of which is 1 and the denominator of which is 28.

The Seller will have the right to prepay the Note in whole or in part from time-to-time without penalty. The Purchaser will assume liabilities of the Seller under real property and personal property leases related to the operation of the Centers (the "Assumed Liabilities"). Taxes (to the extent prepaid) and real estate rentals will be prorated as of the Closing Date.

2. The Closing. The closing (the "Closing") of the purchase and  
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sale of the Center Assets will occur on the third business day following satisfaction or waiver of the conditions to closing set forth in Paragraph 3 (such day of Closing being hereinafter referred to as the "Closing Date").

3. Definitive Agreements. The Purchaser and the Seller will  
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negotiate in good faith one or more definitive agreements concerning the purchase and sale of the Center Assets (the "Center Definitive Agreement(s)"). The Purchaser and Blockbuster Entertainment Group, a division of Viacom Inc. ("Blockbuster") will cooperate with each other in the event Blockbuster determines it shall receive certain tax benefits by structuring the transaction as a sale of all outstanding capital stock (the "Stock Sale") of the Seller to the Purchaser followed by an election by the Purchaser under Section 338(h)(10) of the Internal Revenue Code of 1986, as amended. In the event of a Stock Sale, the transaction will be structured to the extent possible to mirror the economics, representations, warranties, covenants and conditions to closing of the Center Definitive Agreement(s) and Blockbuster will indemnify the Purchaser and hold it harmless for all liabilities other than the Assumed Liabilities. The Center Definitive Agreement(s) will contain representations, warranties and covenants substantially identical to those found in that certain Agreement and Plan of Merger (the "Merger Agreement"), dated as of September 2, 1994, by and among the Purchaser, Columbus Acquisition, Inc., Blockbuster Entertainment Corporation and Blockbuster Children's Amusement Corporation; provided, however, that such representations,  
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warranties and covenants may be revised only to reflect the differing transaction structures. The Center Definitive Agreement(s) will also contain indemnification provisions substantially identical to those contained in the Merger Agreement; provided, however, that the baskets  
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set forth in Sections 11.1 and 11.2 of the Merger Agreement will be reduced proportionally based upon the difference in consideration between the Merger

Agreement and the Center Definitive Agreement(s). The Center Definitive Agreement(s) will contain conditions to closing substantially identical to those contained in that certain Stock Purchase Agreement (the "Purchase Agreement"), dated as of the date hereof, among DKB, Inc., Kevin F. Flynn June, 1992 Non-Exempt Trust, Brian J. Flynn June, 1992 Non-Exempt Trust, Donald F. Flynn, Kevin F. Flynn, Brian J. Flynn, Viacom Inc. and Blockbuster Discovery Investment, Inc.; provided, however, that such conditions to closing

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may be revised only to reflect the differing transaction structures. Notwithstanding anything to the contrary herein, the Center Definitive Agreement(s) will also contain conditions for a limited due diligence review by the Purchaser to be completed by the close of business on April 21, 1995, which review will be deemed satisfactory unless it reveals (i) a material misstatement in the balance sheets or profit and loss statements previously delivered to the Purchaser, (ii) a material agreement or contract entered into by the Purchaser is not enforceable, or (iii) the Purchaser does not have good title to a material asset which it otherwise claims to own free and clear of any liens or encumbrances (the "Materiality Conditions"). For a Materiality Condition to prevent Closing, the Seller must have first been given a reasonable opportunity not longer than ten (10) business days to cure such Materiality Condition. In the event there is a Materiality Condition that is not cured as provided herein, the parties agree, without prejudice to the rights of the Purchaser to terminate this agreement, to discuss in good faith a reduction of the Original Principal Balance. The Center Definitive Agreement(s) will provide for a six-month royalty-free license from Blockbuster Entertainment Inc. to the Purchaser of the mark "Block Party".

4. Access to Information. Promptly following execution of this

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agreement in principle, the Seller will provide the Purchaser, its officers, directors, employees, agents and representatives with access to all information concerning the Centers and all officers of the Seller (at reasonable times and with reasonable advance notice) in order to permit the Purchaser to perform a thorough legal, financial and business investigation of the Centers.

5. Confidentiality. Each of the Purchaser, the Seller and FEC agrees

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that it will not, and will use its best efforts to cause its officers, directors, employees, affiliates, agents and representatives not to, disclose the subject matter or terms of this agreement in principle or any confidential information exchanged in connection

therewith, or issue any news release or make any other public statement with respect thereto, without the prior written consent of the other parties hereto, except as required by law, rule, regulation or judicial process (in which case the party required to disclose such information shall, to the extent practicable, notify the other parties prior to such disclosure).

6. Expenses. Whether the transactions contemplated hereby are  
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consummated, each of the parties hereto will bear its own expenses (including attorneys fees and expenses) in connection with the negotiation and execution of the Center Definitive Agreement(s) and the consummation of the transactions contemplated thereby.

7. Governing Law. This agreement in principle will be governed  
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by and construed in accordance with the laws of the State of Delaware.

8. Termination. This agreement will terminate on the earlier to  
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occur of (i) the date of closing of the transactions contemplated by the Purchase Agreement or (ii) June 30, 1995, without liability or obligation on the part of any party hereto other than for a breach of the provisions of the first sentence of Paragraph 3 and Paragraphs 5 and 6; provided, however, that this agreement may be terminated by the  
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mutual agreement of the parties hereto.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

Discovery Zone, Inc.  
April 17, 1995  
Page 6

Please acknowledge your acceptance of and agreement with the terms of this letter by signing and returning the enclosed copy.

Very truly yours,

BLOCKBUSTER FAMILY FUN, INC.

/s/ Adam D. Phillips  
-----

By: Adam D. Phillips  
Its: Vice President

BLOCKBUSTER ENTERTAINMENT INC., a  
division of Viacom Inc.

/s/ Adam D. Phillips  
-----

By: Adam D. Phillips  
Its: Vice President

Accepted and agreed to this  
\_\_\_\_\_ day of April, 1995:

DISCOVERY ZONE, INC.

/s/ Donald F. Flynn  
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By: Donald F. Flynn  
Its: Chairman and Chief Executive Officer

EXHIBIT A

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TO

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AGREEMENT IN PRINCIPLE

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- (1) Blockbuster Block Party  
4595 San Mateo Boulevard  
Albuquerque, New Mexico
  
- (2) Blockbuster Block Party  
4102 Claire Drive  
Indianapolis, Indiana

VIACOM ENTERS INTO MANAGEMENT AGREEMENT WITH  
DISCOVERY ZONE

CHICAGO, April 17 -- Discovery Zone Inc. (NASDAQ: ZONE) today announced that the Blockbuster Entertainment Group of Viacom, Inc. (AMEX: VIA, VIA.B) has entered into a five-year Management Services Agreement with Discovery Zone.

The Company said that Discovery Zone Chairman and CEO Donald F. Flynn will remain chairman and a member of the board of directors, and Steven R. Berrard, president and chief executive officer of Blockbuster has been elected as interim Discovery Zone chief executive until a replacement is named. Discovery Zone board members not affiliated with Viacom will resign effective at closing.

Discovery Zone also announced that the Flynn family will complete the previously announced exercise of outstanding warrants to acquire additional shares of Discovery Zone common stock, investing \$26,700,000. Blockbuster Entertainment, in order to retain its 49.9 percent ownership of Discovery Zone common stock, will purchase an aggregate of 3,823,647 shares of Discovery Zone common stock from the Flynn family.

"This management agreement is a major milestone in the growth and evolution of Discovery Zone," said Flynn. "Viacom's wealth of brands and Blockbuster's expertise as one of the premier entertainment retailers in the world will enrich the overall experience in all of our FunCenters. Additionally, Viacom's infrastructure and strong position in the entertainment industry should lead to a reduction in operating expenses and additional marketing opportunities, while the grant of the warrants will give Viacom strong incentives to enhance shareholder value."

"We have had a long, successful relationship with Discovery Zone as a shareholder, former franchisee and joint

venture partner," said Berrard. "Don Flynn and Discovery Zone Management have pioneered the concept of the children's FunCenter and established the Company as the nationally recognized leader in children's destination-based entertainment. Now, with this management agreement we will have the opportunity to build on its success, further leverage our assets, improve the Company's operations and increase its profitability."

The Management Services Agreement is for a term of five years, with successive one-year extensions. Under the Management Agreement, Discovery Zone will reimburse Blockbuster for its costs incurred and will grant to Blockbuster warrants to acquire an aggregate of up to 473,463 shares of a new class of non-cumulative, convertible, participating preferred stock. The terms of the agreement have been approved by an independent committee of Discovery Zone's Board of Directors.

Each share of preferred stock will be convertible into 24 shares of Discovery Zone common stock by any holder who is not affiliated with Blockbuster. The warrants, a Class A Warrant, a Class B Warrant and a Class C Warrant, will be exercisable for an equal number of shares of preferred stock and will vest on the first, second and third anniversaries of the effective date of the management agreement, with exercise prices per share of preferred stock of \$249.000, \$286.344 and \$343.608, respectively.

Blockbuster also will sell its "Block Party" entertainment centers to Discovery Zone for net book value of \$15 million payable in subordinated notes.

It is anticipated that these transactions, which are subject to customary closing conditions, will close sometime during the second quarter.



Discovery Zone, Inc. is the nation's leading operator of children's indoor entertainment and fitness facilities.

Blockbuster Entertainment Group is a unit of Viacom Inc. with businesses in entertainment retailing, television and film production, live entertainment and pay cable. The Group is composed of Blockbuster Video, Blockbuster Music, Blockbuster International, Spelling Entertainment, Showtime Networks Inc. and Paramount Parks, as well as Discovery Zone FunCenters.

Viacom Inc. is a worldwide leader in entertainment and publishing. In addition to Blockbuster Entertainment, Viacom's operations include Paramount Pictures, Paramount Television, MTV Networks, Simon & Shuster, radio and television stations, cable systems serving approximately 1.1 million customers in the United States and movie theaters in 11 countries.