

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this ___ day of _____, 2003, by and between JB's Family Restaurants, Inc. ("JB's"), Clark D. Jones, Thomas Godfrey, Richard B. Huntington, D. Jerry Carter, Paul W. Warner, and Donn Boyle (collectively referred to as the "Retirees"), Textron Financial Corporation ("Textron"), and Santa Barbara Restaurant Group, Inc. ("SBRG") in consideration of and upon the terms and conditions set forth herein. (The above-identified parties are sometimes collectively referred to as the "Parties;" the Retirees, Textron, and SBRG are sometimes collectively referred to as the "Creditor Parties.")

RECITALS

- A JB's filed a voluntary petition for reorganization relief under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. § 101-1330 on March 7, 2002.
- B JB's continues to operate its business and manages its properties as debtor in possession pursuant to §§ 1107(a) and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed.
- C JB's has proposed a plan of reorganization in its chapter 11 proceedings and has submitted a disclosure statement for approval by the Bankruptcy Court (the JB's Plan of Reorganization").
- D On October 4, 1985 JB's approved the JB's Supplemental Executive Retirement Plan ("the Executive Retirement Plan"). The Retirees contend that The Executive Retirement Plan, attached hereto as Exhibit A, is a legally binding and enforceable obligation and is the basis for the unsecured claims filed by the Retirees. The Executive Retirement Plan provides for a monthly benefit payment to the Retirees based primarily on the time of service and income. The benefit payments to the Retirees continue until the death of the Retiree and continues in a lesser amount (50%) to the surviving spouse, if any. JB's ceased making payment under the Executive Retirement Plan after the filing of the Chapter 11 bankruptcy case and has not made any payments since the filing. The Retirees filed unsecured claims in the Chapter 11 case. Although the Plan of Reorganization filed by JB's and the Disclosure Statement recognized the liability under the Executive Retirement Plan, no claims under the Executive Retirement Plan were scheduled by JB's. Nonetheless, the Retirees contend that the Executive Retirement Plan is a valid and binding obligation of JB's and the amounts unpaid prior to the filing of the petition as set forth in the unsecured claims filed by the Retirees are accurate and allowable as unsecured claims and will be paid in accordance with the Plan. Under the Plan the amounts due under the Retirement Plan will be paid and the Executive Retirement Plan will continue as an obligation of the reorganized debtor and its obligations to the Retirees and their spouses will be fully performed and the rights of the Retirees are not altered other than to allow payment of the amounts unpaid as of the Effective Date of the Plan

- over a period of time without interest. The Retirees are giving up the right to any interest on the delinquent payments in order to facilitate the reorganization of the Debtor.
- E The ownership of JB's was acquired by LBW Investments, LLC ("LBW") in a transaction generally referred to as a "leveraged buy out" in November of 2000 for the stated purchase price of \$11,000,000.
 - F Approximately \$8,000,000 of the purchase price was borrowed from Textron in two notes: one long-term note for \$6,000,000 ("Note A") and a short-term note in the amount of \$2,025,000 ("Note B"). JB's assets include the substantial real estate being acquired as a part of the purchase secured both notes.
 - G The balance of the purchase price was in the form of a promissory note payable to SBRG (the "Carryback Note") in the approximate amount of \$3,000,000. The Carryback Note is secured only by the membership interest in LBW. The Carryback Note is subject to offsets for the amount owing to the Retirees for the Executive Retirement Plan and other post-closing adjustments. SBRG has a claim against the JB's estate for the amount owing on the Carryback Note. The amount of SBRG's claim is disputed because of issues relating to the amount of the post-closing adjustments. In addition, SBRG asserts a claim for the amounts for which it may be liable under the Point of Sale Equipment Transaction.
 - H No payments are to be made on the Carryback Note, and SBRG agreed to reimburse JB's for the monthly payments to the Retirees, until Note B is paid in full (the agreement to reimburse JB's is referred to as the "Reimbursement Agreement").
 - I The Retirees filed a motion to appoint a trustee in JB's Chapter 11 case, commenced Adversary #03-0008 against Textron objecting to Textron's secured claim and seeking the equitable subordination of that claim, and against SBRG objecting to SBRG's unsecured claim and seeking the equitable subordination of that claim. The process for the approval of the disclosure statement and the subsequent confirmation of the JB's Plan of Reorganization has been suspended pending the resolution of the Motion to Appoint a Trustee filed by the Retirees.
 - J The Parties now desire to settle all of the disputes between them according to the provisions of this Agreement including the Motion to Appoint a Trustee, the objections to the claim and motions seeking equitable subordination of the Textron and the SBRG claims, and the treatment for all Creditor Parties to this Agreement under JB's Plan of Reorganization so that JB's can confirm its Plan of Reorganization and emerge from these Chapter 11 Proceedings. The Parties hereto enter this Agreement without the admission of liability by any Party of the likelihood of success of the pending matters being resolved by this Agreement. To settle their disputes so that JB's can confirm the JB's Plan of Reorganization and

successfully reorganize its debts, the Parties have entered into this Agreement and set forth herein their understanding and agreements.

OPERATIVE PROVISIONS

1. Accuracy and Incorporation of Recitals. All the foregoing recitals are incorporated in these operative provisions without any difference and distinction between the two portions of the Agreement and the Parties hereby acknowledge the accuracy of the recitals hereto.

2. Adequate Consideration. The Parties agree that the consideration for this Agreement is fair and adequate and was the result of aggressive litigation and negotiation.

3. The Parties Treatment in the Plan of Reorganization. JB's agrees to amend the Proposed Plan of Reorganization as provided below for the treatment of the Creditor Parties and to seek confirmation of the proposed plan as so amended so long as it is consistent with the treatment as agreed in this Agreement. All other provisions for the treatment of the Creditors in JB's pending proposed plan of reorganization not specifically described below shall remain unaltered by this Agreement.

A. The Retirees' Claims.

a. Definitions:

- i. "Arrearages" shall mean the amounts owing to the Retirees and unpaid as set forth in Exhibit B and the Arrearages continue to accrue on a monthly basis as set forth in Exhibit B. The Retirees acknowledge that payment of the Arrearages is not guaranteed by SBRG or secured by JB's property and that only Regular Monthly Payments for months 1 through and including 48 are guaranteed or secured as more fully described below.
- ii. "Regular Monthly Payments" shall mean the amount payable to each Retiree monthly as set forth on Exhibit B, subject to such adjustments or terminations as are provided for in Sections V and VI of the Executive Retirement Plan.
- iii. "Appealable Order" shall mean an appealable order entered by the Bankruptcy Court confirming JB's Amended Plan of Reorganization. Such order shall be final for the purposes of this Settlement Agreement

immediately upon docketing by the Bankruptcy Court and irrespective of any time to appeal such order. Payments will begin to Retirees as described in subparagraph b, below, unless a stay is entered which prevents such payment.

- b. Regular Monthly Payments to the Retirees shall commence thirty days following the entry of an appealable order confirming JB's Amended Plan of Reorganization. The month of the first payment is Month 1 of the 48 months as described in this Agreement. Payment of the Arrearages will begin when the payments to Class 7 begin and shall be paid in the same manner except that the Arrearages shall not accrue interest.
- c. Month 1 through and including Month 24 of the Regular Monthly Payments to the Retirees under the Executive Retirement Plan shall be guaranteed by SBRG. Other than the guaranty of Regular Monthly Payments for months 1-24, SBRG shall have no obligation to any of the Retirees, their wives, or any other person or entity arising out of the Executive Retirement Plan, including but not limited to, for any Accelerated Arrearages as defined in Paragraph 3(A)(f), herein below.
- d. Months 25 through 48 of the Regular Monthly Payments to the Retirees under the JB's Plan of Reorganization shall be secured by JB's. The following shall be the terms of the agreement for the providing of this security:
 - i. The form of the security shall be a Deed of Trust in a first priority position on the real property owned by JB's on which Unit 604 is located, a copy of which is attached as Exhibit C. A Security Agreement shall also be executed, a copy of which is attached as Exhibit D. The Deed of Trust and Security Agreement shall indicate that payments to the Retirees for months 25 through 48 are secured and that the property or proceeds from the sale of the property held in escrow can be realized on without order of the court in the event of default.
 - ii. JB's agrees to attempt to sell the real property.
 - iii. Upon the closing of any such sale, the Retirees' security interest shall attach to the net proceeds of such sale up to a maximum of \$380,000.00.

- iv. Such proceeds shall be placed in an interest-bearing escrow account (the "Escrow") with Arizona Escrow & Financial Corporation. This Agreement shall constitute the escrow instructions to the escrow agent. JB's, the Retirees, and Textron agree to execute whatever additional documents, including additional escrow instructions, as are reasonably required to open and maintain the escrow and are consistent with this Agreement.
- v. Within seven (7) days of the Regular Monthly Payment to the Retirees for month 27, the amount of the escrow shall be reduced to the amount that is equal to the total of the remaining Regular Monthly Payments through month 48 as determined with reference to Sections V and VI of the Executive Retirement Plan and the excess monies in escrow shall be paid to Textron to reduce the amount owing on Note A. Such determination shall be repeated quarterly within seven (7) days of the payments for months 30, 33, 36, 39, 42 and 45, with the excess monies in each event being paid to Textron for application to Note A. Notice shall be sent to the Retirees of any monies paid from the escrow account.
- vi. At the end of month 48, provided that all Regular Monthly Payments have been made to the Retirees, the remaining proceeds in the escrow shall be paid to JB's or Textron (to reduce the amount owing on Note A) to be as later agreed between those parties and the escrow shall be terminated.
- vii. Each of the Retirees were married at the time of the Payment Commencement Date, and therefore, as stated on page 9 of the Retirement Agreement, the Retirees' surviving spouses are entitled to a 50% Joint and Survivor Annuity. A surviving spouse will have all the rights of the Retirees under this agreement and is entitled to enforce the terms of this agreement.
- viii. The Retirees and their surviving spouses shall continue to receive Regular Monthly Payments from JB's after month 48 as provided for in the Executive Retirement Agreement, and such agreement will continue in full force and effect as per its terms.

- e. The parties agree that written notice of default shall be sent by regular mail, fax or email as follows:

JB's Family Restaurants
ATTN: Lynn Whiteford

Email: lwhiteford@jbsfamily.com
Fax: (602) 426-0480

With a copy to:

Thomas E. Littler
Warnicke & Littler, PLC
1411 N. Third Street
Phoenix, AZ 85004

Email: tom@warnickelittler.com
Fax: (602) 256-0345

Textron Financial Corp.
ATTN: Alan Wolverton

Email: Awolverton@textronfinancial.com
Fax: 1-888-249-8733

With a copy to:

Kevin J. Blakley
Gammage & Burnham, PLC
Two N. Central Ave., 18th Floor
Phoenix, AZ 85004

Email: kblakley@gbllaw.com
Fax: (602) 256-4475

Santa Barbara Restaurant Group:
ATTN: Chief Financial Officer

Email: tabajian@ckr.com
Fax: (805) 898-4224

With a copy to:

General Counsel

Email: rwilson@ckr.com
Fax: (714) 520-4485

And

Elissa D. Miller
Sulmeyer, Kupetz, Balmann & Rothman
300 South Grand Avenue, 14th Floor
Los Angeles, California 90071

Email: emiller@sulmeyerlaw.com
Fax: (213) 629-4520

- f. Default on Arrearages: In the event of default on payments for the Arrearages, the remaining Arrearages shall be accelerated and become immediately due and payable. Unless cured, payment on the Arrearages shall be in default 25 days after written notice of the default by the Retirees, or a representative thereof, to JB's, Textron and SBRG. The parties agree that written notice shall be sent to the parties by regular, email or fax as listed above in subparagraph e.
- g. Default on Regular Monthly Payments: In the event of default on any Regular Monthly Payment to the Retirees, the Retirees shall, in addition to any remedies described above, have the right to sue for such default without prejudice to their right to keep receiving their Regular Monthly Payment. The Retirees shall have the right to bring successive suits for each Regular Monthly Payment in default. Unless cured, a Regular Monthly Payment shall be in default 25 days after written notice of the default by the Retirees, or a representative thereof, to JB's, Textron and SBRG. The parties agree that written notice shall be sent to the parties by regular mail, email or fax as listed above in subparagraph e.
- h. The Executive Retirement Plan is a valid and binding obligation of JB's and the amounts unpaid prior to the filing of the petition as set forth in the unsecured claims filed by the Retirees are accurate and allowable as unsecured claims and will be paid in accordance with the Plan. Under the Plan, the amounts due under the Retirement Plan will be paid and the Executive Retirement Plan will continue as an obligation of the reorganized debtor and its obligations to the Retirees and their spouses will be fully performed and the rights of the Retirees are not altered other than to allow payment of the amounts unpaid as of the Effective Date of the Plan over a period of time without interest.

B. The Textron Claim.

- a. The date on which all principal and interest is to be paid to Textron by JB's for the B Note (the "Due Date") shall be extended for one year. A Modification Agreement shall be executed, a copy of which is attached as Exhibit E.
- b. Textron shall subordinate its security interest in the real property on which Unit 604 is located to a new deed of trust in favor of the Retirees as provided above.
- c. Textron agrees to the terms of the Escrow as provided above.
- d. All other terms and conditions of the agreements between and among Textron, JB's, and LBW shall remain unaltered except as expressly agreed by Textron in writing duly executed by an authorized Textron representative.
- e. SBRG's claim shall be subject to the terms of the Subordination Agreement dated November 13, 2000 between and among Textron, JB's, LBW and SBRG, and no distributions on SBRG's claim may be made until after Note B is fully paid. After the date Note B is fully paid, SBRG may receive distributions on its claim provided that, both immediately prior to and after making such payment, (a) JB's remains in compliance with the Fixed Charge Coverage covenant set forth in Section 5.15 of the Loan Agreement between Textron and JB's, and (b) no Default or Event of Default exists as those terms are defined in the Loan Agreement between Textron and JB's.

C. The SBRG Claim

- a. The Reimbursement Agreement shall be terminated and any monies being held in escrow shall be returned to SBRG.
- b. SBRG's claim shall be allowed as a general unsecured claim in the amount of \$256,000.00 as a compromise of the amount owing that has been negotiated between JB's and SBRG. In addition, SBRG shall receive a contingent claim for amounts potentially due from SBRG pursuant to the guarantees made by SBRG as follows: (1) \$213,566 plus interest and taxes under the Point of Sale Equipment Transaction; and \$380,000 to the Retirees pursuant to section A (c) of the Retiree's Settlement Agreement.

- c. Unless there is an uncured Default in payments to SBRG under the confirmed Plan of Reorganization, SBRG shall be entitled to payment on its claim in the amount of \$256,000 only. In the event of Default in payments to SBRG under the confirmed Plan Of Reorganization is not cured within 30 days of written notice to JB's, then SBRG shall be entitled to file an amended claim to include any portion of its contingent claims as set forth in subparagraph b above, less any payments, credits or adjustments due as of the date of Default.
- d. JB's agrees to seek approval of this compromised amount of the SBRG claim pursuant to Bankruptcy Rule 9019 as a part of the confirmation of its proposed Plan of Reorganization.

4. Dismissal of Adversary Proceedings, Motion to Appointment of A Trustee and Claim Objections. The Parties agree to execute and file a stipulation to dismiss the Adversary Proceedings and the Motion for the Appointment of a Trustee, with prejudice, with each party to bear their own attorney's fees and costs. The Retirees further agree to withdraw their objections to the claims of Textron and SBRG.

5. Creditor Parties Agree to Support JB's Plan of Reorganization. The Creditor Parties agree to support the JB's Plan of Reorganization and to vote to "accept" the Plan in the ballot, provided that it is in substantially the same form as is on file with the Bankruptcy Court as modified consistent with this Agreement.

6. Releases of Liability. With the exception of the obligations set forth herein, in the Plan of Reorganization, and in any agreements between and among the Parties, the Parties for themselves, and their officers, partners, shareholders, managers, fiduciaries, directors, agents, attorneys, successors and assigns, parent corporations and subsidiary corporations hereby absolutely and irrevocably waive, release, and forever discharge the other Parties and their officers, partners, shareholders, managers, fiduciaries, directors, agents, attorneys, successors and assigns, parent corporations, subsidiary corporations and all persons or entities acting by, through, under, or in concert with any of them for, from, and against any and all claims, rights, demands, liabilities, causes of action, subordinations, recoupments, offsets, counterclaims, defenses, and obligations, of every kind or nature, known or unknown, suspected or unsuspected, fixed or contingent, foreseen or unforeseen, whether in law or equity which each has now or in the future, or ever had, from the beginning of time, provided, however, that no waivers, releases or discharges of liability are given or made by Textron in favor of JB's and/or LBW and Textron reserves all claims of any nature against JB's and LBW, and further provided that any waivers, releases or discharges of liability from Textron in favor of SBRG are limited to claims arising in connection with the financing and acquisition of JB Restaurants from SBRG by LBW, and in addition shall not include a waiver of the Subordination Agreement dated November 13, 2000, which agreement shall remain in

full force and effect.. The Disclosure Statement and Plan of Reorganization shall expressly provide for the release of JB's as Debtor and Debtor-in-Possession and by the Retirees of Textron, LBW and SBRG from any claims or causes of action including, without limitation, claims for equitable subordination, lender liability or recovery of allegedly fraudulent transfers or fraudulent conveyances arising out of the acquisition of JB's from SBRG by LBW, and/or the financing of that acquisition by Textron, and shall also incorporate all other terms and conditions of this Agreement.

7. Release by Other Creditors. The Release by Debtor set forth in paragraph 6 above, shall act as a release on behalf of the Estate and all creditors of the estate receiving notice of this settlement as part of the plan of reorganization.

8. Further Assurances. The Parties hereby agree they will sign any additional documents and perform any act, which is reasonably necessary to effectuate and implement the terms, conditions, and intent of this Agreement.

9. No Third-Party Beneficiaries. It is the express intention of the Parties hereto that there are no third party beneficiaries of this Agreement other than those persons described in releases in Section 6 and 7 above. The Retirees' wives at the time of the Payment Commencement Date under the Executive Retirement Plan are direct beneficiaries of this Agreement and have the right to enforce the terms of this Agreement.

10. Integrated Agreement. Except as provided herein, this Settlement Agreement represents the entire and exclusive agreement and understanding between and among the Parties hereto pertaining to the subject matter hereof and completely integrates in writing and supersedes all prior promises, representations, negotiations, statements, discussions, understandings, and agreements of every kind and character between and among the Parties. There are no other agreements or promises not reflected in this Settlement Agreement and the Parties hereto intend this Settlement Agreement to be enforceable according to its terms. Each party confirms and agrees that they have executed this Agreement solely for the purposes expressly stated herein, and not in reliance upon any other oral or written agreement, promise, representation or warranty, or upon any belief as to any fact not expressly recited herein. This Settlement Agreement including its attachments is the final agreement among the Parties concerning its subject matter and supersedes any and all previous agreements. This Agreement may be altered only by a writing signed by all of the Parties hereto.

11. Binding Effect on Successors. This Settlement Agreement and all of the terms and provisions hereof shall be binding upon and inure to the benefit of the Parties thereto and their respective successors, heirs, assigns, devisees, personal representatives, agents, beneficiaries, trustees, employees, creditors, and servants except that no party may assign, delegate, or transfer any of its rights or obligations under this Agreement without the prior written consents of the other Parties hereto.

12. Counterpart Signatures. This Settlement Agreement may be executed in any number of counterparts or facsimile counterparts with originals to follow. The

execution by all of the Parties hereto by each signing a counterpart of this instrument shall constitute a valid execution. This instrument and all of its counterparts so executed shall constitute a valid execution.

13. Time Is Of The Essence. Time and strict performance are of the essence with respect to each and every aspect of this Agreement.

14. Authorized Signatures. The Parties represent, warrant, and state that all legal action necessary for the effectuation and execution of the Settlement Agreement except for Bankruptcy Court Approval (which order is expected as a part of the Order confirming the JB's Plan of Reorganization after the execution of this Settlement Agreement) has been validly taken, that the individuals whose signatures appear below are duly authorized to execute this Settlement Agreement and to bind the party that they purport herein to represent, that they have not assigned or transferred any of the claims released herein, and that they are the party legally entitled to prosecute the claims and to the payment for the claims being paid hereby.

15. Governing Law. This Agreement is executed and delivered in the State of Arizona, and the laws of the State of Arizona shall govern its interpretation and enforcement.

16. Construction. The paragraph headings in this Agreement are solely for the convenience of the Parties and are not a part of this Settlement Agreement and shall not be used in the interpretation of, or in the determination of the validity of, this Settlement Agreement or any provision thereof. This Settlement Agreement is intended to express the mutual intent of the Parties hereto, and has been reviewed carefully by the Parties and their attorneys. Irrespective of the identity of the party or counsel who prepared this document, no rule of strict construction shall be applied against any party.

17. Advice of Counsel. The Parties hereby acknowledge that each has been represented by counsel of its own choosing in the negotiation and preparation of this Agreement, that they have, by and through their duly authorized representatives, each read this Agreement or has had it read to them, that each has been advised by counsel and is fully aware of the Agreement's contents and its legal effect, and that all agreements, exceptions and understanding between the Parties are embodied and expressed herein (except as excepted elsewhere in this Agreement) and that each enters into this Agreement freely, without coercion and based upon its own judgment and not in reliance upon any representatives or promises made to each other, other than those contained herein.

18. Modification. No modification or amendment to this Settlement Agreement shall be effective unless in writing and executed by the party against whom enforcement of the modification or amendment is sought.

19. Voluntary Execution. This Settlement Agreement is freely and voluntarily executed by the undersigned without any duress and coercion, after each party has carefully and completely read all the terms and provisions.

20. Subject to Confirmation of JB's Plan of Reorganization. This Agreement conditioned upon the entry of a final order confirming JB's Plan of Reorganization which Plan incorporates the treatment and other provisions of this Agreement. If such Plan is not confirmed by December 31, 2003, this Agreement shall be null and void and of no effect. The Disclosure Statement and Plan of Reorganization shall expressly provide for the release by the Debtor on its own behalf and on behalf of all creditors and parties in interest to whom notice of this settlement has been given and the Retirees of Textron, LBW and SBRG from any claims or causes of action including, without limitation, claims for equitable subordination, lender liability or recovery of allegedly fraudulent transfers or fraudulent conveyances arising out of the acquisition of JB's from SBRG by LBW, and/or the financing of that acquisition by Textron, and shall incorporate all other terms and conditions of this Agreement.

IN WITNESS WHEREOF the Parties hereto have set this hands the day and year first above written.

JB's FAMILY RESTAURANTS, INC.

Date: _____

By: _____

Its: _____

TEXTRON FINANCIAL COPRORATION

Date: _____

By: _____

Its _____

SANTA BARBARA RESTAURANT
GROUP, INC.

Date: _____

By: _____

Its _____

Date: _____
CLARK D. JONES

Date: _____
THOMAS GODFREY

Date: _____
RICHARD B. HUNTINGTON

Date: _____
D. JERRY CARTER

Date: _____
PAUL W. WARNER

Date: _____
DONN BOYLE

RETIREES

APPROVED AS TO FORM AND CONTENT:

WARNICKE & LITTLER, P.L.C.

By _____
Thomas E. Littler
Attorneys for JB's Family
Restaurants, Inc.

LEWIS AND ROCA, LLP

By _____
Gerald K. Smith
Attorneys for Clark Jones, Thomas Godfrey,
Richard B. Huntington, D. Jerry Carter, Paul
W. Warner and Donn Boyle

GAMMAGE & BURNHAM

By _____
Mary B. Artigue
Attorneys for Textron Financial Corp.

SULMEYER, KUPETZ, BAUMANN & ROTHMAN,
A Professional Corporation

By _____
Elissa D. Miller
Attorneys for Santa Barbara
Restaurant Group, Inc.

CARMICHAEL & POWELL, PC

By _____
Donald Powell
Attorneys for Unsecured Creditors Committee