

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

[X] QUARTERLY REPORT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
FOR THE QUARTER ENDED AUGUST 3, 2003.

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT  
OF 1934 FOR THE TRANSACTION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 0-25858  
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DAVE & BUSTER'S, INC.  
(Exact Name of Registrant as Specified in Its Charter)

MISSOURI  
(State of Incorporation)

43-1532756  
(I.R.S. Employer Identification No.)

2481 MANANA DRIVE  
DALLAS, TEXAS  
(Address of Principle Executive Offices)

75220  
(Zip Code)

Registrant's telephone number, including area code:  
(214) 357-9588

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

Indicate by check mark whether the registrant is an accelerated filer  
(as defined in Rule 12b-2 of the Exchange Act).  
Yes [X] No [ ]

The number of shares of the Issuer's common stock, \$.01 par value,  
outstanding as of September 8, 2003 was 13,412,118 shares.

DAVE & BUSTER'S, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

DAVE & BUSTER'S, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

	13 WEEKS ENDED		26 WEEKS ENDED	
	August 3, 2003	August 4, 2002	August 3, 2003	August 4 2002
Food and beverage revenues	\$ 45,613	\$ 46,156	\$ 93,277	\$ 94,899
Amusements and other revenues	42,696	45,994	86,619	94,493
Total revenues	88,309	92,150	179,896	189,392
Cost of revenues	16,544	16,715	33,215	34,831
Operating payroll and benefits	25,951	28,583	52,750	58,962
Other store operating expenses	28,058	28,199	56,250	56,527
General and administrative expenses	6,396	7,601	12,335	13,712
Depreciation and amortization expense	7,394	7,561	14,701	15,116
Preopening costs	--	248	--	401
Total costs and expenses	84,343	88,907	169,251	179,549
Operating income	3,966	3,243	10,645	9,843
Interest expense, net	1,748	1,792	3,808	3,801
Income before provision for income taxes	2,218	1,451	6,837	6,042

Provision for income taxes	754	530	2,324	2,205
	-----	-----	-----	-----
Income before cumulative effect of a change in an accounting principle	1,464	921	4,513	3,837
Cumulative effect of a change in an accounting principle	--	--	--	(7,096)
	-----	-----	-----	-----
Net income (loss)	\$ 1,464	\$ 921	\$ 4,513	\$ (3,259)
	=====	=====	=====	=====
Net income (loss) per share - basic				
Before cumulative effect of a change in an accounting principle	\$ 0.11	\$ 0.07	\$ 0.34	\$ 0.30
Cumulative effect of a change in an accounting principle	--	--	--	(0.55)
	-----	-----	-----	-----
	\$ 0.11	\$ 0.07	\$ 0.34	\$ (0.25)
	=====	=====	=====	=====
Net income (loss) per share - diluted				
Before cumulative effect of a change in an accounting principle	\$ 0.11	\$ 0.07	\$ 0.34	\$ 0.29
Cumulative effect of a change in an accounting principle	--	--	--	(0.53)
	-----	-----	-----	-----
	\$ 0.11	\$ 0.07	\$ 0.34	\$ (0.24)
	=====	=====	=====	=====
Basic weighted average shares outstanding	13,116	12,986	13,103	12,978
Diluted weighted average shares outstanding	13,458	13,435	13,383	13,382

See accompanying notes to consolidated financial statements.

DAVE & BUSTER'S, INC.  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)  
(UNAUDITED)

ASSETS	August 3, 2003	February 2, 2003
	-----	-----
Current assets:		
Cash	\$ 6,209	\$ 2,530
Inventories	25,598	26,634
Prepaid expense	2,193	2,049
Other current assets	2,165	2,136
	-----	-----
Total current assets	36,165	33,349
Property and equipment, net	248,157	249,451
Other assets	8,124	8,412
	-----	-----
Total assets	\$ 292,446	\$ 291,212
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	\$ 9,075	\$ 8,300
Accounts payable	13,697	14,952
Accrued liabilities	12,891	12,201
Income tax payable	2,611	325
Deferred income taxes	1,750	1,802
	-----	-----
Total current liabilities	40,024	37,580
Deferred income taxes	14,065	14,065
Other liabilities	11,403	10,471

Long-term debt, less current installments	52,269	59,494
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 10,000,000 authorized; none issued	--	--
Common stock, \$0.01 par value, 50,000,000 authorized		
13,133,618 and 13,080,117 shares issued and outstanding		
as of August 3, 2003 and February 2, 2003, respectively	133	132
Paid-in-capital	117,098	116,678
Restricted stock awards	757	608
Retained earnings	58,543	54,030
	-----	-----
	176,531	171,448
Less: treasury stock, at cost (175,000 shares)	(1,846)	(1,846)
	-----	-----
Total stockholders' equity	174,685	169,602
	-----	-----
Total liabilities and stockholders' equity	\$ 292,446	\$ 291,212
	=====	=====

See accompanying notes to consolidated financial statements.

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DAVE & BUSTER'S, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(IN THOUSANDS)  
(UNAUDITED)

	Common Stock		Paid-in Capital	Restricted Stock Awards	Retained Earnings	Treasury Stock	Total
	Shares	Amount					
Balance, February 2, 2003	13,080	\$132	\$116,678	\$608	\$54,030	\$(1,846)	\$169,602
Proceeds from exercises of stock options	53	1	368	--	--	--	369
Tax benefit related to exercises of stock options	--	--	52	--	--	--	52
Amortization of restricted stock awards	--	--	--	149	--	--	149
Net income	--	--	--	--	4,513	--	4,513
Balance August 3, 2003	13,133	\$133	\$117,098	\$757	\$58,543	\$(1,846)	\$174,685
	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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DAVE & BUSTER'S, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	26 Weeks Ended August 3, 2003	26 Weeks Ended August 4, 2002
	-----	-----
Cash flow from operating activities	\$ 4,513	\$ 3,837
Income before cumulative change in an accounting principle		
Adjustment to reconcile income before cumulative change in an accounting principle to net cash provided by operating activities:		
Depreciation and amortization	14,701	15,116
Provision (benefit) for deferred income taxes	(52)	(43)
Restricted stock awards	149	100
Loss (gain) on sale of assets	72	(101)
Tax benefit related to exercises of stock options	52	43
Changes in operating assets and liabilities		
Inventories	1,036	115

Prepaid expenses	(144)	(4,273)
Other current assets	(29)	448
Other assets	281	709
Accounts payable	(1,255)	5,079
Accrued liabilities	690	800
Income taxes payable	2,286	(1,585)
Other liabilities	934	1,302
	-----	-----
Net cash provided by operating activities	23,234	21,547
Cash flows from investing activities		
Capital expenditures	(13,718)	(17,889)
Proceeds from sale of property and equipment	245	482
	-----	-----
Net cash used in investing activities	(13,473)	(17,407)
Cash flow from financing activities		
Borrowing under long-term debt	5,250	10,852
Repayments under long-term debt	(11,700)	(17,454)
Proceeds from exercises of stock options	368	303
	-----	-----
Net cash used by financing activities	(6,082)	(6,299)
	-----	-----
Cash provided (used)	3,679	(2,159)
Beginning cash and cash equivalents	2,530	4,521
	-----	-----
Ending cash and cash equivalents	\$ 6,209	\$ 2,362
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid for income taxes - net of refunds	\$ 38	\$ 3,815
Cash paid for interest, net of amounts capitalized	\$ 3,425	\$ 3,561

See accompanying notes to consolidated financial statements.

DAVE & BUSTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 3, 2003

(UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 1: ORGANIZATION AND DESCRIPTION OF BUSINESS

Dave and Buster's, Inc., a Missouri corporation, is a leading operator of large format, high-volume regional entertainment complexes. Our one industry segment is the ownership and operation of restaurant/entertainment complexes under the name "Dave and Buster's" which are located in the United States.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Dave & Buster's, Inc. and wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. These unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles. These unaudited financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K, as filed with the SEC.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted

accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### INVENTORIES

Inventories, which consist of food, beverage and merchandise, are reported at the lower of cost or market determined on a first-in, first-out method. Static supplies inventory is capitalized at each store opening date and reviewed periodically for valuation.

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#### CUMULATIVE EFFECT OF A CHANGE IN AN ACCOUNTING PRINCIPLE

Pursuant to SFAS 142, we changed our accounting policy related to goodwill effective January 1, 2002. SFAS 142 requires that goodwill no longer be amortized to earnings, but instead should be reviewed for impairment at least annually. Under SFAS 142, impairment is deemed to exist when the carrying value of goodwill is greater than its implied fair value. This methodology differs from the Company's previous policy, as permitted under accounting standards existing before SFAS 142, of using undiscounted cash flows of the businesses acquired over its estimated life.

As a result of applying the new standards, the initial assessment of fair value of the Company resulted in a one-time charge for the entire write off of goodwill of \$7,100 in the quarter ended May 5, 2002. This was recorded as a cumulative effect of a change in accounting principle. The write off of goodwill resulted in a negative \$0.53 per diluted share for the first quarter ended May 5, 2002. The remaining intangible asset (trademark) is insignificant and continues to be amortized over its useful life.

#### STOCK BASED COMPENSATION

We have elected to follow Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees, in accounting for our employee stock options. Under APB 25, if the exercise price of an employee's stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized. At August 3, 2003, we had two stock-based compensation plans covering employees and directors.

Although SFAS 123 allows us to continue to follow the present APB 25 guidelines, we are required to disclose pro forma net income (loss) and pro forma net income (loss) per share as if we had adopted SFAS 123. The pro forma impact of applying SFAS 123 for the quarters ended August 3, 2003 and August 4, 2002 will not necessarily be representative of the pro forma impact in future years. Our pro forma information is as follows (in thousands, except per share data):

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2003	August 4, 2002	August 3, 2003	August 4, 2002
Net income (loss), as reported	\$ 1,464	\$ 921	\$ 4,513	\$ (3,259)
Stock compensation expenses recorded under the intrinsic method, net of income taxes	55	36	98	66
Pro forma stock compensation expense recorded under the fair value method, net of income taxes	(220)	(390)	(442)	(848)
Pro forma net income (loss)	<u>\$ 1,299</u>	<u>\$ 567</u>	<u>\$ 4,169</u>	<u>\$ (4,041)</u>
Basic earnings (loss) per common share, as reported	\$ 0.11	\$ 0.07	\$ 0.34	\$ (0.25)
Diluted earnings (loss) per common share, as reported	\$ 0.11	\$ 0.07	\$ 0.34	\$ (0.24)
Pro forma basic earnings (loss) per common share	\$ 0.10	\$ 0.04	\$ 0.32	\$ (0.31)
Pro forma diluted earnings (loss) per common share	\$ 0.10	\$ 0.04	\$ 0.32	\$ (0.30)

NOTE 3: LONG-TERM DEBT

At August 3, 2003, long-term debt consisted of the following:

Long-term debt	\$ 61,344
Less current installments	(9,075)
	-----
	\$ 52,269
	=====

In 2000, we secured a \$110,000 senior secured revolving credit and term loan facility. The facility includes a five-year revolver and five and seven-year term debt. The facility agreement calls for quarterly payments of principal on the term debt through the maturity date and is secured by all assets of the Company.

Borrowing under the facility bears interest at a floating rate based on LIBOR (1.1% at August 3, 2003) or, at our option, the bank's prime rate (4.0% at August 3, 2003) plus, in each case, a margin based upon financial performance. This rate at August 3, 2003 was 5.5%. The facility is secured by all assets of the Company. The facility has certain financial covenants including a minimum consolidated tangible net worth level, a maximum leverage ratio and minimum fixed charge coverage. At August 3, 2003, \$22,695 was available under this facility. The fair value of our long-term debt approximates its carrying value.

We have entered into an agreement that expires in 2007, to change a portion of our variable rate debt to fixed-rate debt. Notional amounts aggregating \$44,388 at August 3, 2003 are fixed at 5.44%. We are exposed to credit losses for periodic settlements of amounts due under the agreements if LIBOR decreases. The market interest rate was below the fixed 5.44% rate at August 3, 2003. A charge of \$478 to interest expense was incurred in the second quarter of 2003 under the agreement compared to \$466 for the same quarter in 2002. A charge of \$934 was incurred for the 26 weeks ended August 3, 2003 compared to \$895 for the 26 weeks ended August 4, 2002.

On August 7, 2003 we closed a \$30 million private placement of 5.0% convertible subordinated notes due 2008 and warrants to purchase 522,446 shares of our common stock at \$13.46 per share. The investors may convert the notes into our common stock at any time prior to the scheduled maturity date of August 7, 2008. The conversion price is \$12.92 per share, which represents a 20% premium over the closing price of our common stock on August 5, 2003. If fully converted, the notes will convert into 2,321,981 shares of our stock. After August 7, 2006, we have the right to redeem the notes and we may also force the exercise of the warrants if our common stock trades above a specified price during a specific period of time.

We have used the net proceeds of the offering to reduce the outstanding balances of our term and revolving loans under our senior bank credit facility. We have agreed with the bank that up to \$4 million of the repaid balance may be borrowed to fund the proposed purchase of the Dave & Buster's complex in Toronto, Canada from Funtime Hospitality Corp., our Canadian licensee. The purchase includes the business and assets plus the assumption of certain liabilities. The agreement is subject to various closing conditions, including completion of due diligence, obtaining of all necessary corporate approvals and consents and approval of the seller's shareholders. The transaction is expected to close in October and will terminate Funtime's rights to license and develop Dave & Buster's locations in Canada.

NOTE 4: CONTINGENCIES

EBS Litigation (update)

In March 2000, the former shareholders of Edison Brothers Stores, Inc. brought a third party action against us and certain of our directors in Federal district court in Delaware. The third-party plaintiff class consists of former shareholders of EBS who received stock in our company following its spin-off

from EBS in 1995. Within five months after the spin-off, EBS filed for protection under the bankruptcy laws. The bankruptcy trustee of EBS (through an entity named EBS Litigation LLC) is pursuing fraudulent conveyance claims on behalf of unsecured creditors of EBS against a defendant class of former shareholders arising out of the spin-off distribution of our stock. The former shareholders' third party action against us alleges that, if it is determined that the distribution of our stock to the former shareholders rendered EBS insolvent and was therefore a fraudulent conveyance, then we and certain of our directors (who were our directors at the time of the spin-off) aided and abetted the fraud and are liable for contribution and/or indemnification. We dispute the former shareholders' third party allegations against us and our directors and are vigorously defending this litigation.

In March 2001, the trial court dismissed all of the third party claims against us and rendered judgment in our favor based on a statute of limitations defense. The third-party plaintiffs appealed this ruling. In September 2002, the Third Circuit appellate court reversed the judgment of the district court and remanded the case for further proceedings. In November 2002, our petition for limited rehearing was denied by the Third Circuit.

The underlying case brought by EBS Litigation LLC against the defendant shareholder class was tried before the district court in January 2002, but no verdict was rendered by the court. In early 2003, the trial court judge ruled that the third-party action should be stayed pending the court reaching a verdict in the underlying action. Beginning in March 2003, the court conducted a series of mandatory mediation sessions among the parties to the third-party action. In a mediation session in August 2003, the plaintiffs accepted our settlement offer of \$130,000. Although we continue to believe that we and our directors have no liability for the third-party plaintiff's allegations, we believe this settlement is in our best interests to remove us from this protracted litigation. Separately, we have reached agreement with the carrier of our directors and officers insurance policy whereby substantially all of our settlement payment will be covered by insurance.

DownCity Energy Company LLC v. Dave & Buster's Inc (update)

In September 2002, we were served with a Complaint filed in the Providence, Rhode Island Superior Court against us by DownCity Energy Company LLC, a provider of energy services to our store in the Providence Place Mall. DownCity is seeking damages for breach of contract, services rendered and open account in the amount of \$2.3 million, plus interest, costs and attorney's fees. The claims relate to unpaid invoices for HVAC charges for a period from approximately January 2001 through September 2002. In January 2003, we filed a counterclaim against DownCity and a Third-Party Complaint against Providence Place Group, L. P., our Landlord, alleging, among other things, fraudulent inducement, conspiracy, breach of contract and breach of duty of good faith. We have disputed the excessive HVAC billings from inception and believe the plaintiff's claims to be without merit, based primarily on our assertion that we exercised a right under our lease with Providence Place Group, L. P. in January 2001 to opt out of the alleged HVAC charges and put DownCity on notice thereof. We also believe that we have meritorious counterclaims against DownCity and third party claims against the Landlord to counter any further action by DownCity for damages. Nevertheless, in order to forestall a threat by DownCity to interrupt utility services to our store, in December 2002, we entered into an Interim Agreement with DownCity, pursuant to which we agreed to pay a lump sum of \$450,000 plus the "actual costs" of monthly HVAC services billed by DownCity from January 2003 forward. Such agreement provided that the payments would offset any potential settlement or judgment against us in favor of DownCity.

DownCity answered our counterclaim in March 2003 and Providence Place answered our third party complaint in April 2003. In June 2003, we commenced preliminary settlement negotiations with Providence Place with a view towards a three-way settlement agreement that would modify our lease terms with Providence Place and require Providence Place to resolve DownCity's complaints against us. As a result of such negotiations, a tentative settlement proposal was reached

and a draft of a proposed agreement has been circulated for approval among the parties and counsel. The proposed settlement will not require us to make any additional lump sum payment, but would increase our monthly payments for HVAC on a going forward basis.



Although the settlement is not yet final, based on our current analysis of (a) the amounts previously paid by us, (b) the terms of the proposed settlement and (c) the potential maximum adverse impact of the claims against us if such settlement does not become final, we do not believe that the outcome of this lawsuit could reasonably be anticipated to have a material adverse affect on us and our operations.

#### NOTE 5: RECENT ACCOUNTING PRONOUNCEMENTS

In July 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement nullifies Emerging Issues Task Force or EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. This statement is applicable to exit or disposal activities initiated after December 31, 2002. The adoption of this standard did not have a significant effect on our financial position or results of operations.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(DOLLARS IN THOUSANDS)

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluates its estimates and judgments, including those that relate to depreciable lives, goodwill and debt covenants. The estimates and judgments made by management are based on historical data and on various other factors believed to be reasonable under the circumstances.

The following table sets forth, for the periods indicated, the percentage of total revenues represented by certain items reflected in our consolidated statements of operations:

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2003	August 4, 2002	August 3, 2003	August 4, 2002
Revenues:				
Food and beverage	51.7%	50.1%	51.9%	50.1%
Amusements and other	48.3	49.9	48.1	49.9
Total revenues	100.0	100.0	100.0	100.0
Costs and expenses:				
Cost of revenues	18.7	18.1	18.5	18.4
Operating payroll and benefits	29.4	31.0	29.3	31.1
Other store operating	31.8	30.6	31.2	29.9
General and administrative	7.2	8.3	6.9	7.2
Depreciation and amortization	8.4	8.2	8.2	8.0
Preopening costs	--	0.3	--	0.2
Total costs and expenses	95.5	96.5	94.1	94.8
Operating income	4.5	3.5	5.9	5.2
Interest expense	2.0	1.9	2.1	2.0
Income before provision for income taxes	2.5	1.6	3.8	3.2
Provision for income taxes	0.8	0.6	1.3	1.2

	-----	-----	-----	-----
Income before cumulative effect of a change in an accounting principle	1.7	1.0	2.5	2.0
Cumulative effect of a change in an accounting principle	--	--	--	(3.7)
Net income (loss)	1.7%	1.0%	2.5%	(1.7)%

Results of Operations - 13 Weeks Ended August 3, 2003 Compared to 13 Weeks Ended August 4, 2002

Total revenues for the 13 week period ended August 3, 2003 were \$88,309, a decrease of \$3,841, or 4.2% from \$92,150 for the 13 weeks ended August 4, 2002. The new store opened in fiscal year 2002 contributed \$2,074 in revenues, while comparable store revenues were down \$5,085, or 6.3%, and other non-comparable store revenues were down \$671. The decrease in comparable store revenues is primarily attributed to a continued weak economic environment, which impacts the more discretionary amusement portion of our revenues. Total revenues from licensing agreements were \$79.

Cost of revenues decreased to \$16,544 for the 13 weeks ended August 3, 2003 from \$16,715 for the 13 weeks ended August 4, 2002, a decrease of \$171, or 1.0%. As a percentage of revenues, cost of revenues were up .6% to 18.7% for the 13 week period ended August 3, 2003 versus 18.1% for comparable period in the prior year. The increase in cost of revenues is attributed to higher beverage and amusement costs, up 1.1% and .4%, respectively offset by a .1% decline in food costs.

Operating payroll and benefits decreased to \$25,951 for the 13 weeks ended August 3, 2003 from \$28,583 for the 13 weeks ended August 4, 2002, a decrease of \$2,632, or 9.2%. As a percentage of revenues, operating payroll and benefits were 29.4% for the 13 weeks ended August 3, 2003, down from 31.0% for the comparable period in the prior year. We adjusted our staffing levels in response to the current economic environment.

Other store operating expenses decreased to \$28,058 for the 13 weeks ended August 3, 2003 from \$28,199 for the 13 weeks ended August 4, 2002, a decrease of \$141, or .5%. As a percentage of revenues, other stores operating expense is up 1.2% to 31.8% for the 13 weeks ended August 3, 2003 as compared to 30.6% for the prior year. During the quarter, the decrease in absolute dollars over the prior year is attributed to opening one new store during fiscal year 2002 offset by reductions in marketing expense and renegotiation of cleaning and janitorial contracts at stores. The increase as a percentage of revenue is attributed to the decline in comparable store sales.

General and administrative expenses decreased to \$6,396 for the 13 weeks ended August 3, 2003 from \$7,601 for the 13 weeks ended August 4, 2002, a decrease of \$1,205, or 15.9%. The decrease in absolute dollars in the second quarter of 2003 can be attributed to lower wages/benefits (\$1,100), no transaction costs related to the proposed merger agreement from the prior year (\$1,200), offset by legal and professional services relating to our cost efficiency studies (\$460) and our proxy contest costs (\$640). As a percentage of revenues, general and administrative expenses were down 1.1% to 7.2% for the 13 weeks ended August 3, 2003 from 8.3% for the same period in the prior year.

Depreciation and amortization decreased to \$7,394 for the 13 weeks ended August 3, 2003 from \$7,561 for the 13 weeks ended August 4, 2002, a decrease of \$167, or 2.2%. As a percentage of revenues, depreciation and amortization increased .2% to 8.4% for the 13 week period ended August 3, 2003 as compared to 8.2% for the same period in the prior year, again as a result of the decline in comparable store sales.

There were no preopening expenses incurred during the second quarter. There were \$248 incurred in the same period of the prior year.

Interest expense was \$1,748 for the 13 weeks ended August 3, 2003 compared to

\$1,792 for the 13 weeks ended August 4, 2002, a decrease of \$44, or 2.5%. The reduction in interest expense related to lower outstanding debt was offset by an increase in bank fees, along with reductions in both capitalized interest of \$83 and interest income of \$150 from the prior year.

The effective tax rate for the 13 week period ended August 3, 2003 remained at 34% as compared to the same period in the prior year.

Net income for the period is \$1,464, or \$ .11 per diluted share, compared to a net income of \$921, or \$ .07 per diluted share for the same period in the prior year. The current quarter proxy contest costs were \$640 before tax, or \$ .03 per diluted share net of tax.

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Results of Operations - 26 Weeks Ended August 3, 2003 Compared to 26 Weeks Ended August 4, 2002

Total revenues for the 26 week period ended August 3, 2003 were \$179,896, a decrease of \$9,496, or 5.0%, from \$189,392 for the 26 weeks ended August 4, 2002. The new store opened in fiscal year 2002 contributed \$4,524 in revenues, while comparable store revenues were down \$11,484, or 6.9%, and other non-comparable store revenues were down \$2,858, or 13.4%. The decrease in comparable store revenues is attributable to a continued weak economic environment, which impacts the more discretionary amusement portion of our revenues. Total revenues from licensing agreements were \$237.

Cost of revenues decreased to \$33,215 for the 26 weeks ended August 3, 2003 from \$34,831 for the 26 weeks ended August 4, 2002, a decrease of \$1,616, or 4.6%. The reduction in cost of revenue is attributed to a .4% decline in both amusement and food costs offset by an .8% increase in beverage costs. As a percentage of revenues, cost of revenues were up .1% to 18.5% for the 26 weeks ended August 3, 2003 versus 18.4% for comparable period in the prior year.

Operating payroll and benefits decreased to \$52,750 for the 26 weeks ended August 3, 2003 from \$58,962 for the 26 weeks ended August 4, 2002, a decrease of \$6,212, or 10.5%. As a percentage of revenues, operating payroll and benefits were 29.3% for the 26 weeks ended August 3, 2003, down from 31.3% for the comparable period in the prior year. We adjusted our staffing levels in response to the current economic environment.

Other store operating expenses were down slightly to \$56,250 for the 26 weeks ended August 3, 2003 from \$56,527 for the 26 weeks ended August 4, 2002, a decrease of \$277, or .5%. As a percentage of revenues, other store operating expenses were up 1.3% to 31.2% for the 26 weeks ended August 3, 2003 as compared to 29.9% for the prior year. During the quarter, the decrease in absolute dollars over the prior year is attributed to opening one new store during fiscal year 2002 offset by reductions in marketing expense and renegotiation of cleaning and janitorial contracts at the stores. The increase as a percentage of revenues is attributed to the decline in comparable stores sales.

General and administrative expenses decreased to \$12,335 for the 26 weeks ended August 3, 2003 from \$13,712 for the 26 weeks ended August 4, 2002, a decrease of \$1,377, or 10.0%. The decrease in absolute dollars in fiscal 2003, can be attributed to lower wages and benefits (\$2,100), no transaction costs related to the proposed merger agreement in the prior year (\$1,200), offset by legal and professional services relating to our cost efficiency studies (\$740) and the proxy contest costs (\$741). As a percentage of revenues, general and administrative expenses were down .3% to 6.9% for the 26 weeks ended August 3, 2003 from 7.2% for the same period in the prior year.

Depreciation and amortization decreased to \$14,701 for the 26 weeks ended August 3, 2003 from \$15,116 for the 26 weeks ended August 4, 2002, a decrease of \$415, or 2.7%. As a percentage of revenues, depreciation and amortization increased .2% to 8.2% for the 26 week period ended August 3, 2003 as compared to 8.0% for the same period in the prior year.

There were no preopening expenses incurred during the 26 weeks ended August 3, 2003. There were \$401 incurred in the same period of the prior year.

Interest expense remained relatively flat at \$3,808 for the 26 weeks ended August 3, 2003 compared to \$3,801 for the 26 weeks ended August 4, 2002, an

increase of \$7, or .2%. The reduction in interest expense related to lower outstanding debt was more than offset by an increase in bank fees, along with reductions in both capitalized interest of \$91 and interest income of \$150 from the prior year.

The effective tax rate for the 26 weeks ended August 3, 2003 remained at 34% as compared to the same period in the prior year.

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Net income for the year is \$4,513, or \$ .34 per diluted share, compared to a net loss of \$3,259, or \$ .24 per diluted share for the same period in prior year. The proxy contest costs for the year were \$741 before tax, or \$.04 per diluted share net of tax.

#### Liquidity and Capital Resources

Cash provided by operating activities was \$23,182 for the 26 weeks ended August 3, 2003 compared to \$21,404 for the 26 weeks ended August 4, 2002, an increase of \$1,778. This was primarily due to changes in components of working capital.

Cash used in investing activities was \$13,473 for the 26 weeks ended August 3, 2003 compared to \$17,407 for the 26 weeks ended August 4, 2002. The decrease of \$3,934 was attributed to no store openings in fiscal 2003 offset by remodeling and maintenance capital expenditures, which include the costs for new games in the amusement portion of the business. The proposed purchase of the Dave & Buster's location in Toronto, Canada from the Canadian licensee, Funtime Hospitality Corp. is expected to close in October. The purchase price is \$3.6 million plus the assumption of certain liabilities.

Net cash used by financing activities was \$6,030 compared to \$6,156 for the 26 weeks ended August 4, 2002. We have agreed with the bank that up to \$4 million of the repaid balance can be borrowed to fund the proposed Canadian purchase.

We have a \$110,000 senior secured revolving credit and term loan facility. The facility includes a five-year revolver and five and seven-year term loans. The facility agreement calls for quarterly payments of principal on the term loans through maturity. Borrowings under the facility bear interest at a floating rate based on LIBOR (1.1% at August 3, 2003) or, at our option, the bank's prime rate (4.00% at August 3, 2003) plus, in each case, a margin based upon financial performance. The facility is secured by all assets of Dave & Buster's. The facility has certain financial covenants including a minimum consolidated tangible net worth level, a maximum leverage ratio and minimum fixed charge coverage. The Company believes it will be in compliance with all of its financial and other debt covenants during the fiscal year ending February 1, 2004. At August 3, 2003, \$22,695 was available under this facility.

We have entered into an agreement that expires in 2007, to change a portion of our variable rate debt to fixed-rate debt. Notional amounts aggregating \$44,388 at August 3, 2003 are fixed at 5.44%. We are exposed to credit losses for periodic settlements of amounts due under the agreements if LIBOR decreases. A charge of \$934 was incurred in the 26 week period ended August 3, 2003.

The market risks associated with the agreements are mitigated because increased interest payments under the agreement resulting from reductions in LIBOR are effectively offset by a reduction in interest expense under the debt obligation.

The credit facility, as amended, restricts us from opening any new complexes in fiscal 2003 or in any fiscal year thereafter without the unanimous consent of the bank group. Therefore, since we do not plan to open any new complexes in the current year, we will continue to reduce debt and strategically reinvest capital in our stores through game replacement and other projects, which we expect to yield benefits over the long term.

We believe that available cash and cash flow from operations, together with borrowings under the credit facility, will be sufficient to cover our working capital, capital expenditures and debt service needs in the foreseeable future. Our ability to make scheduled payments of principal or interest on, or to refinance, our indebtedness, or to fund planned capital expenditures, will depend on our future performance, which is subject to general economic conditions, competitive environment and other factors. We may not generate sufficient cash flow from operations, realize anticipated revenue growth and

operating improvements or obtain future capital in a sufficient amount or on acceptable terms, to enable us to service our indebtedness or to fund our other liquidity needs.

#### Recent Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement nullifies Emerging Issues Task Force or EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. This statement is applicable to exit or disposal activities initiated after December 31, 2002. The adoption of this standard did not have a significant effect on our financial position or results of operations.

#### Critical Accounting Policies

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Depreciable lives - expenditures for new facilities and those that substantially increase the useful lives of the property, including interest during construction, are capitalized along with equipment purchases at cost. These costs are depreciated over various methods based on an estimate of the depreciable life, resulting in a charge to the operating results of the Company. The actual results may differ from these estimates under different assumptions or conditions. The depreciable lives are as follows:

Property and Equipment	
Games	5 years
Buildings	40 years
Furniture, fixtures and equipment	5 to 10 years
Leasehold and building improvements	Shorter of 20 years or lease life
Intangible Assets	
Trademarks	Over statutory lives
Lease Rights	Over remaining lease term

Goodwill - Pursuant to SFAS 142, the Company changed its accounting policy related to goodwill effective January 1, 2002. SFAS 142 requires that goodwill no longer be amortized to earnings, but instead should be reviewed for impairment at least annually. Under SFAS 142, impairment is deemed to exist when the carrying value of goodwill is greater than its implied fair value. This methodology differs from the Company's previous policy, as permitted under accounting standards existing before SFAS 142, of using undiscounted cash flows of the businesses acquired over its estimated life. As a result of applying the new standards, the initial assessment of fair value of the Company resulted in a one-time charge for the entire write off of goodwill of \$7,100 for the first quarter ended May 5, 2002. This was recorded as a cumulative effect of a change in accounting principle. The write off of goodwill resulted in a negative \$0.53 per diluted share for the first quarter ended May 5, 2002. The remaining intangible asset (trademark) is insignificant and continues to be amortized over its useful life.

Debt Covenants - The Company's credit facility requires compliance with certain financial covenants including a minimum consolidated tangible net worth level, maximum leverage ratio and minimum fixed charge coverage. The Company believes the results of operations for the fiscal year ending February 1, 2004 and thereafter would enable the Company to remain in compliance with the existing covenants absent any material negative event affecting the U.S. economy as a whole. However, the Company's expectations of future operating results and continued compliance with the debt covenants cannot be assured and the lenders' actions are not controllable by the Company. If the projections of future operating results are not achieved and the debt is placed in default, the

Company would experience a material adverse impact on its reported financial position and results of operations.

#### Contractual Obligations and Commercial Commitments

The following tables set forth our contractual obligations and commercial commitments (in thousands) after issuance of the new convertible debt and repayment of the existing debt on August 7, 2003, as discussed below.

Contractual Obligations	Total	Payments due by period			After 5 years
		1 year or less	2-3 years	4-5 years	
	-----	-----	-----	-----	-----
Long-term debt	\$ 64,094	\$ 7,825	\$19,303	\$36,966	\$ --
Operating leases	314,846	21,846	40,219	36,941	215,840
Operating leases under sale/leaseback transactions	81,305	3,982	8,145	8,451	60,727
	-----	-----	-----	-----	-----
Total	\$460,245	\$33,653	\$67,667	\$82,358	\$276,567

	Total	Amount of commitment expiration per period			After 5 years
		1 year or less	2-3 years	4-5 years	
	-----	-----	-----	-----	-----
Letter of credit	\$ 3,555	\$ 3,555	\$ --	\$ --	\$ --

#### Quarterly Fluctuations, Seasonality and Inflation

As a result of the substantial revenues associated with each new Complex, the timing of new Complex openings will result in significant fluctuations in quarterly results. We expect seasonality to be a factor in the operation or results of our business in the future with anticipated lower third quarter revenues due to the fall season. The effects of supplier price increases are not expected to be material. We believe that low inflation rates in our market areas have contributed to stable food and labor costs in recent years. However, there is no assurance that low inflation rates will continue or that the Federal minimum wage rate will not increase.

#### Subsequent Events

On August 7, 2003 we closed a \$30 million private placement of 5.0% convertible subordinated notes due 2008 and warrants to purchase 522,446 shares of our common stock at \$13.46 per share. The investors may convert the notes into our common stock at any time prior to the scheduled maturity date of August 7, 2008. The conversion price is \$12.92 per share, which represents a 20% premium over the closing price of our common stock on August 5, 2003. If fully converted, the notes will convert into 2,321,981 shares of our stock. After August 7, 2006, we have the right to redeem the notes and we may also force the exercise of the warrants if our common stock trades above a specified price during a specific period of time.

We have used the net proceeds of the offering to reduce the outstanding balances of our term and revolving loans under our senior bank credit facility. We have agreed with the bank that up to \$4 million of the repaid balance may be borrowed to fund the proposed purchase of the Dave & Buster's complex in Toronto, Canada from Funtime Hospitality Corp., our Canadian licensee. The purchase includes the business and assets plus the assumption of certain liabilities. The agreement is subject to various closing conditions, including completion of due diligence, obtaining of all necessary corporate approvals and consents and approval of the seller's shareholders. The transaction is expected to close in October and will terminate Funtime's rights to license and develop Dave & Buster's locations in Canada.

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995

Certain information contained in this 10-Q includes forward-looking statements. Forward-looking statements include statements regarding our expectations, beliefs, intentions, plans, projections, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of

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historical facts. These statements may be identified, without limitations, by the use of forward looking terminology such as "may," "will," "anticipates," "expects," "projects," "believes," "intends," "should," or comparable terms or the negative thereof. All forward-looking statements included in this press release are based on information available to us on the date hereof. Such statements speak only as of the date hereof. These statements involve risks and uncertainties that could cause actual results to differ materially from those described in the statements. These risks and uncertainties include, but are not limited to, the following: our ability to open new high-volume restaurant/entertainment complexes; our ability to raise and access sufficient capital in the future; changes in consumer preferences, general economic conditions or consumer discretionary spending; the outbreak or continuation of war or other hostilities involving the United States; potential fluctuation in our quarterly operating result due to seasonality and other factors; the continued service of key management personnel; our ability to attract, motivate and retain qualified personnel; the impact of federal, state or local government regulations relating to our personnel or the sale of food or alcoholic beverages; the impact of litigation; the effect of competition in our industry; additional costs associated with compliance with the Sarbanes-Oxley Act and related regulations and requirements; and other risk factors described from time to time in our reports filed with the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk exposure relates to changes in the general level of interest rates. Our earnings are affected by changes in interest rates due to the impact those changes have on our interest expense from variable-rate debt. Our agreement to fix a portion of our variable-rate debt mitigates this exposure. If short-term interest rates had been 1.0% higher during the first twenty-six weeks of fiscal year 2003, our interest expense would have increased by approximately \$0.1 million. This amount was determined by applying the hypothetical interest rate change to our floating rate borrowings balance during the first twenty-six weeks of fiscal year 2003.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer, James W. Corley, and our Chief Financial Officer, W.C. Hammett, Jr. have reviewed and evaluated the disclosure controls and procedures that we have in place with respect to the accumulation and communication of information to management and the recording, processing, summarizing and recording thereof for the purpose of preparing and filing this Quarterly Report on Form 10-Q. Such review was made as of August 3, 2003. Based upon their review, these executive officers have concluded that we have an effective system of internal controls and an effective means for timely communication of information required to be disclosed in this Report.

Since August 3, 2003 there have been no significant changes in our internal controls or in other factors that could significantly affect such controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

EBS Litigation (update)

In March 2000, the former shareholders of Edison Brothers Stores, Inc. brought a third party action against us and certain of our directors in Federal district court in Delaware. The third-party plaintiff class consists of former shareholders of EBS who received stock in our company following its spin-off

from EBS in 1995. Within five months after the spin-off, EBS filed for protection under the bankruptcy laws. The bankruptcy trustee of EBS (through an entity named EBS Litigation LLC) is pursuing fraudulent conveyance claims on behalf of unsecured creditors of EBS against a defendant class of former shareholders arising out of the spin-off distribution of our stock. The former shareholders' third party action against us alleges that, if it is determined that the distribution of our stock to the former shareholders rendered EBS insolvent and was therefore a fraudulent conveyance, then we and certain of our directors (who were our directors at the time of the spin-off) aided and abetted the fraud and are liable for contribution and/or indemnification. We dispute the former shareholders' third party allegations against us and our directors and are vigorously defending this litigation.

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In March 2001, the trial court dismissed all of the third party claims against us and rendered judgment in our favor based on a statute of limitations defense. The third-party plaintiffs appealed this ruling. In September 2002, the Third Circuit appellate court reversed the judgment of the district court and remanded the case for further proceedings. In November 2002, our petition for limited rehearing was denied by the Third Circuit.

The underlying case brought by EBS Litigation LLC against the defendant shareholder class was tried before the district court in January 2002, but no verdict was rendered by the court. In early 2003, the trial court judge ruled that the third-party action should be stayed pending the court reaching a verdict in the underlying action. Beginning in March 2003, the court conducted a series of mandatory mediation sessions among the parties to the third-party action. In a mediation session conducted in August 2003, the plaintiffs accepted our settlement offer of \$130,000. The final settlement documentation is pending. Although we continue to believe and assert that we and our directors have no liability for the third-party plaintiff's allegations, we believe this settlement is in our best interests to avoid the continuing costs and distractions associated with this protracted litigation. We have reached agreement with the carrier of our directors and officers insurance policy whereby substantially all of our settlement payment will be covered by insurance.

DownCity Energy Company LLC v. Dave & Buster's Inc (update)

In September 2002, we were served with a Complaint filed in the Providence, Rhode Island Superior Court against us by DownCity Energy Company LLC, a provider of energy services to our store in the Providence Place Mall. DownCity is seeking damages for breach of contract, services rendered and open account in the amount of \$2.3 million, plus interest, costs and attorney's fees. The claims relate to unpaid invoices for HVAC charges for a period from approximately January 2001 through September 2002. In January 2003, we filed a counterclaim against DownCity and a Third-Party Complaint against Providence Place Group, L. P., our Landlord, alleging, among other things, fraudulent inducement, conspiracy, breach of contract and breach of duty of good faith. We have disputed the excessive HVAC billings from inception and believe the plaintiff's claims to be without merit, based primarily on our assertion that we exercised a right under our lease with Providence Place Group, L. P. in January 2001 to opt out of the alleged HVAC charges and put DownCity on notice thereof. We also believe that we have meritorious counterclaims against DownCity and third party claims against the Landlord to counter any further action by DownCity for damages. Nevertheless, in order to forestall a threat by DownCity to interrupt utility services to our store, in December 2002, we entered into an Interim Agreement with DownCity, pursuant to which we agreed to pay a lump sum of \$450,000 plus the "actual costs" of monthly HVAC services billed by DownCity from January 2003 forward. Such agreement provided that the payments would offset any potential settlement or judgment against us in favor of DownCity.

DownCity answered our counterclaim in March 2003 and Providence Place answered our third party complaint in March 2003. Providence Place also filed a counterclaim against us for breach of contract and other related matters to which we filed our reply. Thereafter, we commenced preliminary settlement negotiations with Providence Place with a view towards a three-way settlement agreement that would modify our lease terms with Providence Place and require Providence Place to resolve DownCity's complaints against us. As a result of such negotiations, a tentative settlement proposal was reached and a draft of a proposed agreement has been circulated for approval among the parties. The



proposed settlement will not require us to make any significant additional lump sum payments, but would increase our monthly payments for HVAC on a going forward basis.

Although the settlement is not yet final, based on our current analysis of (a) the amounts previously paid by us, (b) the terms of the proposed settlement and (c) the potential maximum adverse impact of the claims against us if such settlement does not become final, we now do not believe that the outcome of this lawsuit could reasonably be anticipated to have a material adverse affect on us or our operations.

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#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a)-(b) At the Company's Annual Meeting of Shareholders on June 10, 2003, the following persons were elected as directors for a term of three years:

##### Class II

James W. Corley, Peter A. Edison, Patricia P. Priest

The following directors continued their terms of office as directors of the Company after the Annual Meeting:

##### Class I

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David O. Corriveau  
Mark A. Levy  
Christopher C. Maguire

##### Class III

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Allen J. Bernstein  
Walter J. Humann  
David B. Pittaway

(c) The following matters were voted upon at the Annual Meeting:

##### 1. Directors:

	For	Withheld
	-----	-----
James W. Corley	6,333,043	194,272
Peter A. Edison	5,437,262	1,090,053
Patricia P. Priest	6,311,551	215,764
Edward A Weinstein	4,298,230	39,312
Donald T. Netter	4,298,230	39,222
Edward E. Hartline	4,299,940	37,602

##### 2. Ratification of Ernst & Young, LLP as auditors for the Company's 2003 fiscal year:

For	Against	Withheld
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10,559,021	290,595	15,241

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits

- 10.1.5 Amendment No. 5 to Revolving Credit and Term Loan Agreement dated August 6, 2003, by and among the Company and its subsidiaries, Fleet National Bank (as agent) and the financial institutions named therein.

- 10.24 Asset Purchase Agreement dated July 25, 2003 by and among Funtime Hospitality Corp., and the Company.
- 12 Dave & Buster's Inc. Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the CEO.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the CFO.
- 32.1 Section 1350 Certification of the CEO.
- 32.2 Section 1350 Certification of the CFO.

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(b) Reports on Form 8-K

We filed the following reports on Form 8-K during the quarter ended August 3, 2003:

- 1. Form 8-K filed on May 30, 2003 to report the hiring of a new Senior Vice President - Marketing of the Company.
- 2. Form 8-K filed on June 4, 2003 to report the results of the first quarter ended May 4, 2003.
- 3. Form 8-K filed on July 30, 2003 to report the signing of an agreement to purchase our Canadian licensee's business in Toronto, Canada.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DAVE & BUSTER'S, INC.

Date: September 11, 2003

by /s/ JAMES W. CORLEY

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James W. Corley  
Chief Executive Officer

Date: September 11, 2003

by /s/ W. C. HAMMETT, JR.

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W. C. Hammett, Jr.  
Senior Vice President,  
Chief Financial Officer

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INDEX OF EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
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12	Dave & Buster's Inc. Computation of Ratio of Earnings to Fixed Charges.
31.1	Rule 13a-14(a)/15d-14(a) Certification of the CEO.
31.2	Rule 13a-14(a)/15d-14(a) Certification of the CFO.
32.1	Section 1350 Certification of the CEO.
32.2	Section 1350 Certification of the CFO.

AMENDMENT NO. 5  
TO  
REVOLVING CREDIT AND TERM LOAN AGREEMENT

This AMENDMENT NO. 5 TO REVOLVING CREDIT AND TERM LOAN AGREEMENT dated as of August 6, 2003 (this "Amendment"), by and among DAVE & BUSTER'S, INC. ("DBI"), the Subsidiaries of DBI (DBI collectively with such subsidiaries, the "Borrowers"), FLEET NATIONAL BANK ("FNB"), the other lending institutions listed on Schedule 1 to the Credit Agreement (together with FNB, the "Banks"), FNB as administrative agent for the Banks (the "Agent") and Bank One, NA as documentation agent (the "Documentation Agent"), amends certain provisions of the Revolving Credit and Term Loan Agreement, dated as of June 30, 2000 among the Borrowers, the Banks, the Agent and the Documentation Agent (as amended and in effect from time to time, the "Credit Agreement"). Each capitalized term used herein without definition shall have the meaning assigned to such term in the Credit Agreement.

WHEREAS, the Borrowers wish to issue Convertible Subordinated Debt (as defined below) and to acquire D & B Toronto (as defined below) using proceeds from the issuance of the Convertible Subordinated Debt as provided herein;

WHEREAS, the Borrowers, the Banks and the Agent desire to decrease by \$4,000,000 the aggregate permitted principal amount of the Revolving Credit Loans available under the Credit Agreement as provided more fully herein below;

WHEREAS, the Borrowers, the Banks and the Agent have agreed to amend certain terms and conditions of the Credit Agreement as specifically set forth in this Amendment;

NOW THEREFORE, in consideration of the mutual agreements contained in the Credit Agreement and herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. AMENDMENT TO SECTION 1 - DEFINITIONS. Section 1 of the Credit Agreement is hereby amended by inserting, in alphabetical order, the following new definitions:

"D & B Toronto. The Dave & Buster's restaurant located in Toronto, Canada to be purchased by Newco, subject to compliance by Newco and the Borrowers with Section 9.17, as permitted by Section 10.5.3.

D & B Toronto Acquisition. The acquisition by Newco, subject to compliance with Section 9.17, of all of the assets of D & B Toronto with \$4,000,000 of the cash proceeds from the issuance of the Convertible Subordinated Debt pursuant to documentation in form and substance satisfactory to the Agent.

Convertible Subordinated Debt. Unsecured Indebtedness of DBI evidenced by the Subordinated Indenture and the Subordinated Notes.

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Indenture Effective Date. The date on which the Subordinated Indenture becomes effective and DBI has incurred the Convertible Subordinated Debt, which date shall be prior to August 31, 2003.

Newco. The newly created Subsidiary of DBI which, subject to compliance with Section 9.17, will acquire the assets of D & B Toronto.

Repurchase Event. As such term is defined in the Subordinated Indenture.

Subordinated Debt Documents. Collectively, the Subordinated Purchase Agreement, the Subordinated Indenture, the Subordinated Registration

Rights Agreement, the Subordinated Notes, the Warrants and the other documents and agreements executed and delivered in connection therewith.

Subordinated Indenture. The Indenture dated as of a date after August 4, 2003 but prior to August 31, 2003 between DBI and [the Indenture Trustee] relating to the Subordinated Notes in form and substance and containing subordination provisions satisfactory to the Agent.

Subordinated Notes. The Convertible Subordinated Notes due 2008 in the aggregate principal amount of not more than \$35,000,000 issued pursuant to the Subordinated Indenture in form and substance and containing subordination provisions satisfactory to the Agent.

Subordinated Purchase Agreement. The Securities Purchase Agreement, dated after August 4, 2003 but prior to August 31, 2003, among DBI and certain other parties thereto as initial purchasers, relating to the issuance and sale by DBI of the Subordinated Notes and the Warrants, in form and substance satisfactory to the Agent.

Subordinated Registration Rights Agreement. The Registration Rights Agreement, dated after August 4, 2003 but prior to August 31, 2003, among DBI, U.S. Bancorp Piper Jaffray Inc., and certain other parties thereto as initial purchasers of the Subordinated Notes and Warrants in form and substance satisfactory to the Agent.

Warrants. The warrants to purchase shares of common stock issued pursuant to the Subordinated Purchase Agreement and all warrants issued in exchange, transfer or replacement thereof in form and substance satisfactory to the Agent."

SECTION 2. AMENDMENT OF SECTION 4.4.2 - MANDATORY PREPAYMENTS. Section 4.4.2 of the Credit Agreement is hereby amended as follows:

(a) Section 4.4.2.1 is amended by inserting after the words "other than" in clause (f) of such section, the words "the Convertible Subordinated Debt,";

(b) Section 4.4.2 is further amended by inserting a new subsection 4.4.2.5 to read as follows:

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"4.4.2.5. Mandatory Prepayments from Proceeds of Convertible Subordinated Debt. Immediately upon receipt by DBI of the proceeds from the issuance of the Convertible Subordinated Debt, the Borrowers shall prepay the Term Loans in an aggregate amount equal to 100% of the proceeds from the issuance of the Convertible Subordinated Debt less (i) up to \$4,000,000 (in connection with the D & B Toronto Acquisition) and (ii) any fees and expenses related to the issuance of the Convertible Subordinated Debt, provided that in no event shall such aggregate amount of such prepayment be less than \$19,000,000. Such prepayment shall be applied to the principal of each of Term Loan A and Term Loan B on a ratable basis based upon the respective outstanding amounts thereof and against the remaining scheduled installments of each of such Term Loan in inverse order of their maturity. No amount repaid with respect to a Term Loan may be reborrowed. The provisions of Section 6.9 shall apply to each prepayment pursuant to this Section 4.4.2.5."

SECTION 3. AMENDMENT OF SECTION 8 - STATUS AS SENIOR DEBT. Section 8 of the Credit Agreement is hereby amended by inserting immediately after the text of Section 8.25 the following new sections:

"8.26. STATUS OF LOANS AS SENIOR DEBT. From and after the Indenture Effective Date, all Indebtedness of DBI and each of its Subsidiaries to the Banks and the Agent in respect of the Obligations constitutes "Designated Senior Debt" under the terms of the Subordinated Debt Documents.

8.27. SUBORDINATED DEBT DOCUMENTS. Each of the representations and warranties made by DBI in any of the Subordinated Debt Documents was true and correct in all material respects on the date such representations and warranties were made and/or deemed to have been made.

8.28. NO OTHER SENIOR DEBT. DBI has not designated any Indebtedness of the Borrowers or any of their Subsidiaries as, and has no, "Designated Senior Debt" for purposes of (and as defined in) the Subordinated Indenture, other than the Obligations."

SECTION 4. AMENDMENT OF SECTION 10.1 - RESTRICTIONS ON INDEBTEDNESS. Section 10.1 of the Credit Agreement is hereby amended by deleting the text "and" following Section 10.1(g), and by deleting Section 10.1(h) in its entirety and substituting in place thereof the following:

"(h) the Convertible Subordinated Debt; and

(i) Indebtedness consisting of guaranties or indemnities of Indebtedness of any Borrower or any of its Subsidiaries described in clauses (a) through (h) of this Section 10.1."

SECTION 5. AMENDMENT OF SECTION 10.5.3 - ACQUISITIONS. Section 10.5.3 of the Credit Agreement is hereby amended by deleting the text "." immediately following the text "shall not exceed \$5,000,000" and substituting the following therefor:

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", and (c) the D & B Toronto Acquisition, provided that, (i) immediately prior to and after, and after giving effect to, the D & B Toronto Acquisition, no Default or Event of Default shall then exist, (ii) the aggregate amount expended in cash by the Borrowers for such acquisition shall not exceed \$4,000,000, and shall be paid solely from the cash proceeds of the Convertible Subordinated Debt, (iii) the Agent shall be satisfied that Newco is able to become a joint and several Borrower and pledge its assets to support the Obligations, and (iv) either prior to or immediately upon the effectiveness of the D & B Toronto Acquisition, Newco shall become a joint and several Borrower hereunder and the Borrowers and Newco shall comply with the provisions of Section 9.17."

SECTION 6. AMENDMENT OF SECTION 10 - SUBORDINATED DEBT. Section 10 of the Credit Agreement is hereby amended by inserting immediately after the end of the text of Section 10.12 the following:

"10.13. SUBORDINATED DEBT. The Borrowers will not, and will not permit any of their Subsidiaries, to (a) amend, supplement or otherwise modify the terms of any of the Subordinated Debt Documents or (b) prepay, redeem or repurchase (or offer to prepay, redeem or repurchase) any of the Convertible Subordinated Debt.

10.14. SENIOR DEBT. The Borrowers will not in any manner designate or permit to exist any Indebtedness of any Borrower or any of their Subsidiaries as "Designated Senior Debt" (or any analogous term) for purposes of (and as defined in) the Subordinated Indenture, other than the Indebtedness in respect of the Obligations."

SECTION 7. AMENDMENT OF SECTION 11 - LEVERAGE RATIO. Section 11.1 of the Credit Agreement is hereby amended by deleting the text thereof in its entirety and substituting the following therefor:

"11.1 LEVERAGE RATIO. The Borrowers will not permit the Leverage Ratio, determined at the end of and for any period of four consecutive fiscal quarters of the Borrowers ending during any period described in the table below, to be greater than the ratio set forth opposite such period in the column labeled Unadjusted Ratio in such table; provided that for any period of four consecutive fiscal quarters

of the Borrowers ending from and after the date on which the Borrowers receive Net Cash Proceeds in an aggregate amount in excess of \$12,500,000 from Existing Unit Permitted Sale-Leasebacks and a New Unit Permitted Sale-Leaseback in respect to the Cleveland, Ohio Unit, the Borrowers will not permit the Leverage Ratio, determined at the end of and for such four quarter period to be greater than the ratio set forth below in the column labeled "Adjusted Ratio" opposite the period during which such four quarter period ends:

Period ----- (inclusive of end dates) -----	Unadjusted Ratio -----	Adjusted Ratio -----
Effective Date through Fiscal Year 2004 (ending 1/31/04)	1.65:1	1.65:1
Thereafter	1.50:1	1.50:1

SECTION 8. AMENDMENT OF SECTION 14 - EVENTS OF DEFAULT. Section 14.1 of the Credit Agreement is hereby amended as follows:

(a) Section 14.1(f) of the Credit Agreement is hereby amended by deleting Section 14.1(f) in its entirety and restating it as follows:

"(f) (i) the holders of all or any part of the Convertible Subordinated Debt shall accelerate the maturity of all or any part of the Convertible Subordinated Debt; or the Convertible Subordinated Debt shall be (or shall be required at such time to be) prepaid, redeemed or repurchased in whole or in part; or DBI or any of its Subsidiaries shall be or become required under the terms of any of the Subordinated Debt Documents to prepay, redeem or repurchase (or shall be or become required thereunder to offer to prepay, redeem or repurchase) all or any part of the Convertible Subordinated Debt; or (ii) any Borrower or any of its Subsidiaries shall fail to pay at maturity, or within any applicable period of grace, any obligation for borrowed money or credit received or in respect of any Capitalized Leases in an outstanding principal amount of \$250,000, or any Convertible Subordinated Debt or fail to observe or perform any material term, covenant or agreement contained in any agreement by which it is bound, evidencing or securing such Indebtedness for such period of time as would permit (assuming the giving of appropriate notice if required) the holder or holders thereof or of any obligations issued thereunder to accelerate the maturity thereof;"

(b) Section 14.1(j) of the Credit Agreement is hereby amended by inserting immediately after the text "Change of Control" the text "or a Repurchase Event".

SECTION 9. AMENDMENT TO SCHEDULE 1 OF THE CREDIT AGREEMENT. Schedule 1 to the Credit Agreement is hereby amended by deleting such Schedule 1 in its entirety and substituting in place thereof the Schedule 1 attached to this Amendment and made a part hereof.

SECTION 10. WAIVER OF SECTION 20.1. Each of the Agent and the Banks hereby waives the condition in Section 20.1 that an Assignment and Acceptance shall not become effective until five (5) Business Days after the execution thereof with respect to the assignment by Bank of America, N.A. to FNB dated July 28, 2003. Such Assignment and Acceptance shall become effective immediately upon the satisfaction of the other conditions therein.

SECTION 11. AFFIRMATION AND ACKNOWLEDGMENT. Each Borrower hereby ratifies and confirms all of its Obligations to the Banks and the Agent, including, without limitation, the Loans, and the Borrowers hereby affirm their joint and several absolute and unconditional promise to pay to the Banks the Loans, the Reimbursement Obligations, and all other amounts due under the Credit Agreement as amended hereby. Each Borrower hereby confirms that the Obligations

are and remain secured pursuant to the Security Documents and pursuant to all other instruments and documents executed and delivered by each Borrower as security for the Obligations.

SECTION 12. REPRESENTATIONS AND WARRANTIES. Each Borrower hereby represents and warrants to the Banks and the Agent as follows:

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(a) The execution and delivery by each Borrower of this Amendment and the performance by each Borrower of its obligations and agreements under this Amendment and the Credit Agreement as amended hereby are within the corporate authority of such Borrower, have been duly authorized by all necessary corporate proceedings on behalf of such Borrower, and do not and will not contravene any provision of law, statute, rule or regulation to which such Borrower is subject or any of such Borrower's charter, other incorporation papers, by-laws or any stock provision or any amendment thereof or of any agreement or other instrument binding upon such Borrower.

(b) Each of this Amendment and the Credit Agreement as amended hereby constitutes the legal, valid and binding joint and several obligation of each Borrower, enforceable in accordance with its respective terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights.

(c) No approval or consent of, or filing with, any governmental agency or authority is required to make valid and legally binding the execution, delivery or performance by each Borrower of this Amendment and the Credit Agreement as amended hereby.

(d) The representations and warranties contained in Section 8 of the Credit Agreement are true and correct at and as of the date made and as of the date hereof, except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date.

(e) Each Borrower has performed and complied in all material respects with all terms and conditions herein required to be performed or complied with by it prior to or at the time hereof, and as of the date hereof, after giving effect to the provisions hereof, there exists no Event of Default or Default.

SECTION 13. EFFECTIVENESS. This Amendment shall become effective on August 6, 2003 upon the satisfaction of the following conditions precedent (the "Effective Date"):

SECTION 13.1. MAJORITY BANK APPROVAL. Each section of this Amendment other than the sections specified in Section 13.2 shall become effective upon the written consent of the Borrowers and the written consent of the Majority Banks.

SECTION 13.2. UNANIMOUS BANK APPROVAL. Section 2 hereof shall become effective upon the written consent of the Borrowers and the written consent of each of the Banks.

SECTION 13.3. AMENDMENT FEES. The Borrowers shall have paid to the Agent, for the account of each Bank, an amendment fee in an amount equal to one tenth of one percent (0.10%) of the sum of each such Bank's Revolving Credit Commitment on the Effective Date plus the aggregate principal amount of such Bank's Term Loans outstanding after giving effect to the reduction of such Bank's Term Loans pursuant to Section 4.4.2.5 of the Credit Agreement (as amended hereby).

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SECTION 13.4. NO MATERIAL ADVERSE CHANGE. The Majority Banks shall be satisfied that there shall have occurred no material adverse change in the business, operations, assets, management, properties, financial condition, income or prospects of the Borrowers and their Subsidiaries taken as a whole since May 4, 2003.

SECTION 13.5. REPRESENTATIONS TRUE; NO EVENT OF DEFAULT.

Each of the representations and warranties of any of the Borrowers and their Subsidiaries contained in this Amendment, the Credit Agreement, the other Loan Documents or in any document or instrument delivered pursuant to or in connection with this Amendment or the Credit Agreement shall be true as of the date as of which they were made (except to the extent of changes resulting from transactions contemplated or permitted by this Amendment or the Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date) and no Default or Event of Default shall have occurred and be continuing.

SECTION 13.6. PROCEEDINGS AND DOCUMENTS. All proceedings in connection with the transactions contemplated by this Amendment and all other documents incident hereto shall be reasonably satisfactory in substance and in form to the Agent.

SECTION 14. MISCELLANEOUS PROVISIONS.

(a) Except as otherwise expressly provided by this Amendment, all of the terms, conditions and provisions of the Credit Agreement shall remain the same. It is declared and agreed by each of the parties hereto that the Credit Agreement, as amended hereby, shall continue in full force and effect, and that this Amendment and the Credit Agreement shall be read and construed as one instrument.

(b) This Amendment is intended to take effect as an agreement under seal and shall be construed according to and governed by the laws of the Commonwealth of Massachusetts.

(c) This Amendment may be executed in any number of counterparts, but all such counterparts shall together constitute but one instrument. In making proof of this Amendment, it shall not be necessary to produce or account for more than one counterpart signed by each party hereto by and against which enforcement hereof is sought.

(d) Each Borrower hereby agrees to pay to the Agent, on demand by the Agent, all reasonable out-of-pocket costs and expenses incurred or sustained by the Agent in connection with the preparation of this Amendment (including legal fees).

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as a document under seal as of the date first above written.

DAVE & BUSTERS, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

DAVE & BUSTER'S I, L.P.

By: DAVE & BUSTER'S, INC., as general  
partner

By: /S/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

DAVE & BUSTER'S OF ILLINOIS, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

DAVE & BUSTER'S OF GEORGIA, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

DAVE & BUSTER'S OF PENNSYLVANIA, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

DANB TEXAS, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

DAVE & BUSTER'S OF MARYLAND, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

DAVE & BUSTER'S OF CALIFORNIA, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

DAVE & BUSTER'S OF COLORADO, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis

Title: Vice President

DAVE & BUSTER'S OF NEW YORK, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

DAVE & BUSTER'S OF FLORIDA, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

DAVE & BUSTER'S OF PITTSBURGH, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

DAVE & BUSTER'S OF HAWAII, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

D&B REALTY HOLDING, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

D&B LEASING, INC.

By: /s/ John S. Davis

-----  
Name: John S. Davis  
Title: Vice President

FLEET NATIONAL BANK, individually and  
as Agent

By: /s/ Heidi F. Tyng

-----  
Name: Heidi Tyng  
Title: Vice President

BANK ONE, NA  
(MAIN OFFICE, CHICAGO, ILLINOIS)

By: /s/ Alan J. Miller

-----

Name: Alan J. Miller  
Title: First Vice President

GUARANTY BANK

By: /s/ Robert S. Hays

-----  
Name: Robert S. Hays  
Title: Senior Vice President

TRANSAMERICA EQUIPMENT FINANCIAL  
SERVICES CORPORATION

By: /s/ Randall L. Allemang

-----  
Name: Randall L. Allemang  
Title: Vice President

THE FROST NATIONAL BANK

By: /s/ Chris W. Holder

-----  
Name: Chris W. Holder  
Title: Senior Vice President

GENERAL ELECTRIC CAPITAL BUSINESS  
ASSET FUNDING CORPORATION, SUCCESSOR  
IN INTEREST TO HELLER FINANCIAL  
LEASING, INC.

By: /s/ Mary E. Lorenz

-----  
Name: Mary E. Lorenz  
Title: Vice President

ORIX FINANCIAL SERVICES, INC.

By: /s/ Mark A. Kassis

-----  
Name: Mark A. Kassis  
Title: Senior Vice President

ELF FUNDING TRUST I

By: Highland Capital Management,  
L.P. as Collateral Manager

By: /s/ Mark Okada

-----  
Name: Chief Investment Officer  
Title: Highland Capital  
Management, L.P.

RESTORATION FUNDING CLO, LTD.

By: Highland Capital Management, L.P.  
as Collateral Manager

By: /s/ Mark Okada

-----  
Name:  
Title:

KZH HIGHLAND - 2 LLC  
By:

By: /s/ Dorian Herrera

-----  
Name: Dorian Herrera  
Title: Authorized Agent

BLUE SQUARE FUNDING LIMITED SERIES 3

By: /s/ Alice L. Wagner

-----  
Name: Alice L. Wagner  
Title: Vice President

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "Agreement") is made as of July 25, 2003, by and among Funtime Hospitality Corp., an Ontario corporation ("Seller"), and Dave and Buster's, Inc., a Missouri corporation ("Purchaser").

WHEREAS, Seller is engaged in the business (the "Business") of operating a Dave & Buster's entertainment complex at The Interchange Shopping Center in Vaughan, Ontario (the "Purchased Store"); and

WHEREAS, Purchaser desires to purchase certain assets and assume certain liabilities of the Business, and Seller desires to sell such assets and assign such liabilities to Purchaser, each upon the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree as follows:

1. PURCHASE AND SALE OF ASSETS

1.1 Purchase and Sale.

(a) At the Closing (as hereinafter defined) and subject to the terms and conditions of this Agreement, Purchaser shall purchase from Seller, and Seller shall sell to Purchaser, all right, title and interest in and to the following assets that are owned by or under the control of Seller (collectively the "Purchased Assets"):

(i) Seller's leasehold interest in the real property, buildings, fixtures, plant, equipment and improvements thereon or attached thereto (collectively referred to as the "Real Estate") granted to Seller under that certain Lease dated April 22, 1999 (the "Lease"), by and between Seller and 547495 ONTARIO LIMITED, as agent for the landlord thereof (the "Landlord"), together with Seller's rights to any related security deposits;

(ii) All tangible personal property including, but not limited to, furniture, fixtures, leasehold improvements, games and equipment owned by Seller and located in or used in the operation of the Purchased Store;

(iii) All inventory (whether on hand or in transit) of food, non-alcoholic beverages, alcoholic beverages (to the extent transferable), raw materials, packaging supplies, tableware, glassware, small wares, menus, tents, Power Cards, prize coupons, midway and other customer prizes and similar items used or held for use in the Business (the "Inventory");

(iv) Subject to any required consents, all of Seller's rights in and under the contracts and agreements relating primarily to the Business and set forth on Schedule 1.1 (a)(iv) (the "Contracts");

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(v) All Seller's records and files relating primarily to the Purchased Assets and the Purchased Store (the "Business Records"), it being understood and acknowledged that Seller will be entitled to make and retain copies of same; and

(vi) Cash and cash equivalents, including any petty cash on hand (the "Cash");

(vii) All accounts receivables, bills receivables, notes receivables, trade accounts, book debts and insurance claims, credit card receivables, and prepaid expenses and cash deposits arising from the operation of the Business prior to Closing (the "Receivables"); and

(viii) To the extent transferable, all licenses, permits or other rights granted by governmental authorities used in or required or necessary for the lawful ownership or operation of the Business (the "Permits").

(b) Notwithstanding the foregoing, the Purchased Assets shall not include the following assets of Seller (the "Excluded Assets"):

(i) All Permits that are not transferable by the terms thereof or by operation of law;

(ii) All Seller's properties, assets, capital stock, rights, claims, contracts and goodwill relating to all businesses conducted by Seller other than the Business;

(iii) Seller's rights under this Agreement and the other closing agreements, certificates and instruments to be executed by Seller in connection with or pursuant to this Agreement;

(iv) All refunds of income taxes filed or to be filed by Seller or its affiliates; and

(v) All Seller's records other than the Business Records.

1.2 Assumption of Liabilities. At the Closing, Purchaser shall assume the following categories of liabilities (collectively, the "Assumed Liabilities"):

(i) to the extent relating to periods on and after the Closing, all liabilities and obligations of Seller under the Permits and the Contracts;

(ii) Seller's obligations to the Transferred Employees as described in Section 5.4 hereof;

(iii) Seller's obligations to customers in respect of gift certificates and gift cards issued prior to the Closing Date to consumers for redemption at the Purchased Store (the "Gift Certificates") (it being understood that Purchaser is not assuming any obligations to governmental agencies or taxing authorities under escheatment or similar statutes in respect of the funds collected by Seller upon the sale of such Gift Certificates);

(iv) Seller's obligations to its customers in respect of any Power Cards, promotional items, prize coupons or other prize awards issued to a customer prior to the Closing Date;

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(v) All of Seller's trade accounts payable and other payables that are, in each case, incurred in the ordinary course of business within forty-five (45) days of closing (the "Payables"). The Payables shall include any and all obligations to the Transferred Employees that are assumed by Purchaser under Section 5.4 or otherwise. Notwithstanding the foregoing, if the aggregate amount of the Payables is greater than the Working Capital (as defined below) as of the Closing Date, then the dollar amount of the Payables to be assumed by Purchaser shall be reduced by an amount equal to such excess, such that the total dollar amount of the Payables assumed by Purchaser shall be equal to the Working Capital. If there are excess Payables as contemplated in the foregoing sentence, then Seller shall pay the excess payables in full at the Closing, beginning with the oldest payables first, unless otherwise directed by Purchaser. For purposes of this Agreement, "Working Capital" shall mean the sum of the Inventory (valued at cost), Cash and Receivables being acquired by Purchaser as of the Closing Date, excluding any Receivables that are older than ninety (90) days or otherwise not collectible;

(vi) an amount equal to Can \$391,687 on finance with respect to midway equipment, which is owed to Czechmate Financing Company; and

(vii) all debts, liabilities, obligations, taxes, commitments

and contracts in respect of the Business or the Purchased Assets arising out of periods, or incurred by Purchaser, on or after the Closing Date.

Except as specifically set forth above, Purchaser does not assume and shall in no event be liable for any debt, obligation, responsibility, liability or contingent liability of Seller, or any affiliate or successor of Seller, or any claim against any of the foregoing, whether known or unknown, contingent or absolute, or otherwise.

1.3. Purchase Price. The consideration to be received by Seller hereunder at the Closing for the Purchased Assets ("Purchase Price") shall be U.S. \$3,600,000, payable in Canadian funds as measured three (3) business days before the Closing by certified bank check or wire transfer of immediately available funds.

1.4. Allocation of Purchase Price. The Purchase Price shall be allocated among the Purchased Assets and Assumed Liabilities in accordance with the allocations set forth on Schedule 1.6. Seller and Purchaser each agree to report the federal, provincial and local income and other tax consequences of the transactions contemplated herein in a manner consistent with such allocation.

1.5. Section 22 Election. Purchaser and Seller shall execute jointly an election in prescribed form under Section 22 of the Income Tax Act (Canada) in respect of the Receivables and shall each file such election with their respective tax returns for their respective taxation years that include the Closing Date.

1.6. GST Election. At the Closing, Seller and Purchaser shall execute jointly an election under Section 167 of the Excise Tax Act (Canada) to have the sale of the Purchased Assets take place on a GST-free basis under Part IX on the Excise Tax Act (Canada) and Purchaser shall file such election with its GST return for the reporting period in which the sale of the Purchased Assets takes place.

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## 2. CLOSING MATTERS.

2.1 Closing. A closing (the "Closing") to effect the purchase and sale of the Purchased Assets shall be held at the offices of Seller on October 1, 2003, or such other date as may be mutually agreed upon by the parties (the "Closing Date"). At the Closing, Seller shall execute such lease assignments, bills of sale and instruments of assignment and assumption as are necessary to convey title to the Purchased Assets and to constitute assignment and assumption of the Assumed Liabilities, as further described in Section 2.2, and Purchaser shall pay the Purchase Price to Seller. At the Closing, Seller shall pay or cause to be paid the following indebtedness of Seller and the Business (the "Extinguished Debt") at Closing (i) all amounts due under the Debenture dated February 17, 2000, between Seller and First Ontario Labour Sponsored Investment Fund, Ltd., being approximately U.S. \$1,775,000, (ii) any amounts due to Toronto-Dominion Bank under a credit facility dated May 16, 2000, which is currently estimated to be approximately U.S. \$225,000, (iii) any rent or other charges in arrears under the Lease, and (iv) any other payables not assumed by Purchaser. Seller shall provide documentation of the payment of such amounts and termination of any agreements or obligations (including liens) relating to the Extinguished Debt, other than the lease, as required in Purchaser's reasonable discretion. All actions taken at the Closing shall be deemed to have been taken simultaneously at the time the last of any such actions is taken or completed.

2.2 Closing Deliveries. The parties shall take such actions and execute such documents as are required to complete the transactions contemplated by this Agreement at the Closing, including those set forth below:

(a) Seller's Closing Deliveries. At the Closing, Seller shall deliver or cause to be delivered to Purchaser the following:

(i) a general conveyance and assumption of liabilities agreement substantially in the form of Exhibit A duly executed by Seller, together with such other bills of sale or instruments of conveyance, assignment or transfer as may be reasonably



required by Purchaser;

(ii) a certificate of the President or other senior officer of Seller dated as of the Closing Date in the form of Exhibit B;

(iii) a certificate of the Secretary or other officer of Seller in the form of Exhibit C;

(iv) appropriate evidence of any consents and approvals, including the approval of Seller's shareholders;

(v) certificates evidencing the payment of all taxes collectable or payable by Seller in respect of the Business under provincial retail sales tax legislation of each province in which the Purchased Assets are located;

(vi) an opinion of Seller's counsel addressed to Purchaser and Purchaser's Solicitors substantially in the form of Exhibit D;

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(vii) the Termination Agreement in the form of Exhibit E (the "Termination Agreement"), which terminates, effective as of the Closing Date, that certain International License Agreement, International Area Development Agreement for Canada, and all related agreements, each of which were entered into by and between Seller and Purchaser (collectively, and as each of them has been amended, the "License Agreement"), and provides that any and all royalty payments or other payments due from Seller to Purchaser through and including the Closing Date shall be forgiven and the parties shall have no further rights or obligations under the License Agreement, except those that are to specifically survive upon termination in accordance with the terms of the License Agreement;

(viii) the elections referred to in Sections 1.5 and 1.6; and

(ix) all deeds of conveyance, bills of sale, assurances, transfers, assignments, consents, and such other agreements, documents and instruments as may be reasonably required by Purchaser to complete the transactions provided for in this Agreement.

(b) Purchaser's Closing Deliveries. At the Closing, Purchaser shall deliver or cause to be delivered to Seller the following:

(i) a general conveyance and assumption of liabilities agreement substantially in the form of Exhibit A duly executed by Purchaser;

(ii) a certificate of the President or other senior officer of Purchaser dated as of the Closing Date in the form of Exhibit E;

(iii) a certificate of the Secretary or other officer of Purchaser in the form of Exhibit F;

(iv) the payments referred to in Section 2.1;

(v) an opinion of Purchaser's Solicitors addressed to Seller and Seller's Solicitors substantially in the form of Exhibit G;

(vi) the elections referred to in Sections 1.5 and 1.6;

(vii) the Termination Agreement; and

(viii) all such other assurances, consents, agreements, documents and instruments as may be reasonably required by Seller to complete the transactions provided for in this Agreement.

3. REPRESENTATIONS AND WARRANTIES OF SELLER. Seller hereby represents and warrants to Purchaser as follows.

3.1. Organization and Good Standing of Seller. Seller is a corporation duly organized and validly existing and in good standing under the laws of its jurisdiction of incorporation or organization.

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3.2. Binding Effect. This Agreement has been or will have been duly authorized, executed and delivered by Seller and is the legal, valid and binding obligation of Seller enforceable in accordance with its terms except that (i) enforceability may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights and (ii) the availability of equitable remedies may be limited by equitable principles of general applicability. Seller is not an insolvent person within the meaning of the Bankruptcy and Insolvency Act (Canada) and will not become an insolvent person as a result of the Closing.

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3.3. No Conflicts; Consents and Approvals.

(a) Except as contemplated elsewhere herein, neither the execution and delivery by Seller of this Agreement nor the consummation by it of the transactions contemplated hereby will violate, breach, be in conflict with, or constitute a default under, or permit the termination or the acceleration of maturity of, or result in the imposition of any lien, claim or encumbrance upon any property or asset of Seller pursuant to (i) Seller's bylaws and articles of incorporation, or (ii) any note, bond, indenture, mortgage, deed of trust, evidence of indebtedness, loan or lease agreement, other agreement or instrument which is material to the operation of the Purchased Store, or any judgment, order, injunction or decree by which Seller is bound, to which it is a party, or to which its assets are subject.

(b) Except as contemplated elsewhere herein and except as set forth in Schedule 3.3, Seller is not required to submit any notice, declaration, report or other filing or registration with any governmental or regulatory authority or instrumentality in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

(c) Except as contemplated elsewhere herein and except as set forth in Schedule 3.3, no waiver, consent, approval or authorization of any governmental or regulatory authority or instrumentality or any other person is required to be obtained or made by Seller in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

3.4. Financial Statements and Records of Seller. No later than July 30, 2003, Seller will have delivered to Purchaser true, correct and complete copies of the unaudited balance sheet of the Business as of June 29, 2003 (the "Seller Financial Statements"), and the related statement of operations for the fiscal year then ended. The Seller Financial Statements have been presented in accordance with Canadian generally accepted accounting principles (except for the absence of footnotes and as otherwise noted therein) and present fairly, in all material respects, the assets, liabilities and financial position of the Business as of the date thereof and the results of operations thereof for the periods then ended.

3.5. Absence of Certain Changes. Since June 29, 2003, Seller has not (except as may result from the transactions contemplated by this Agreement or as set forth on Seller Financial Statements, and except changes relating generally to the economy or the restaurant industry) (i) suffered any adverse change in its results of operations or financial condition, other than changes in the ordinary course of business that, individually or in the aggregate, have not had a material adverse effect on the Business (a "Business Material Adverse Effect"); (ii) suffered any material damage or destruction to or loss of the Purchased Assets not covered by insurance; or (iii) entered into or terminated any material agreement, commitment or transaction, or agreed or made any changes in the Assumed Liabilities.

3.6. No Material Undisclosed Liabilities. There are no material liabilities or obligations of the Business of any nature, whether absolute, accrued, contingent or otherwise, other than the liabilities and obligations that are fully reflected, accrued, or reserved against on Seller Financial Statements, for which the reserves are appropriate and reasonable, or incurred in the ordinary course of business and consistent with past practices since June 29, 2003.

3.7. Tax Liabilities. Seller has paid all federal, provincial and municipal taxes or similar charges in the nature of a tax required to be paid by it, including those with respect to income, goods and

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services, payroll, property, withholding, Canada Pension Plan, unemployment, franchise, excise and sales taxes, and has filed all federal, provincial or municipal tax returns and reports required to be filed by it, to the extent that the same relate to the Purchased Assets or the operations of the Business, and has either paid in full all such taxes that have become due as reflected on any return or report and any interest and penalties with respect thereto or has fully accrued on its books or has established adequate reserves for all taxes payable but not yet due; and has made required cash deposits with appropriate governmental authorities representing estimated payments of taxes, including income taxes and employee withholding tax obligations. No extension or waiver of any statute of limitations or time within which to file any return has been granted to or requested by Seller with respect to any such tax. No unsatisfied deficiency, delinquency or default for any tax, assessment or governmental charge has been assessed (or, to the knowledge of Seller, claimed or proposed) against Seller, nor has Seller received notice of any such deficiency, delinquency or default.

3.8. Title to Properties. Seller has, and will convey to Purchaser at Closing, good and marketable title to the Purchased Assets, free and clear of any lien, claim or encumbrance, except as reflected in Seller Financial Statements or notes thereto and except for the following liens and encumbrances ("Permitted Liens"):

(i) liens for taxes, assessments or other governmental charges not yet due and payable;

(ii) statutory liens incurred in the ordinary course of business with respect to liabilities that are not yet due and payable;

(iii) liens set forth on Schedule 3.8 hereto; and

(iv) such imperfections of title and/or encumbrances as are not material in character, amount or extent and do not materially detract from the value or interfere with the use of the properties and assets subject thereto or affected thereby.

3.9. Condition of Assets. All of the Purchased Assets (other than inventory) are in good condition and working order, ordinary wear and tear excepted, and are suitable for the uses for which intended, free from any defects known to Seller, except such minor defects as do not substantially interfere with the continued use thereof.

3.10 Real Estate.

(a) Seller has a valid, binding and enforceable leasehold interest in and to the sites for the Real Estate. A true, complete and correct copy of the Lease has been made available to Purchaser. As of the Closing, the leasehold interests of Seller are subject to no lien or other encumbrance, and Seller is in quiet possession of the properties covered by such interests.

(b) Each of the buildings, structures and improvements situated on the Real Estate is in good condition and repair, reasonable wear and tear excepted, and is adequate and sufficient to carry on the Business as presently conducted.

(c) Seller has made available to Purchaser, and will transfer possession to Purchaser at Closing, with respect to all of the Real Estate, in each case to the extent in the possession of Seller: (i) real estate tax certificates for previous years, current real estate tax statements, and receipts for current real estate taxes (if available); (ii) copies of all certificates of occupancy, if any; (iii) originals of any tags, licenses, permits, authorizations and approvals required by law and issued by all governmental authorities having jurisdiction and all other records, files and correspondence relating to the operation and maintenance of the Real Estate which have not been previously delivered; (iv) "as built" and other surveys; and (v) any environmental site assessments.

(d) To the extent in the possession of Seller, the file copies of the leasehold title policies with respect to the Real Estate (collectively the "Title Policies") have been made available to Purchaser.

(e) There is no material violation of any zoning, building, health, fire, water use or similar statute, ordinance, law, regulation or code in connection with the ownership and/or use of the Real Estate. To the knowledge of Seller, no fact or condition exists which would result in the termination or impairment of access to the Real Estate or discontinuation of necessary sewer, water, electrical, gas, telephone or other utilities or services.

(f) Seller has not received any notice that either the whole or any portion of the Real Estate is to be condemned, requisitioned or otherwise taken by any public authority. Seller has no knowledge of any public improvements that may result in special assessments against or otherwise adversely affect any of the Real Estate.

(g) Except as set forth on Schedule 3.10 and in each case solely in respect of the Real Estate:

(i) Seller is not in violation or alleged violation of any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including, without limitation those arising under any federal, provincial or municipal statute, regulation, ordinance, order or decree relating to health, safety or the environment (hereinafter "Environmental Laws");

(ii) Seller has not received written notice from any third party, including without limitation any federal, provincial or municipal governmental authority, (A) that Seller or any of its predecessors in interest has been identified by any federal, provincial or municipal agency as being in violation of Environmental Laws; (B) that any hazardous waste, as defined or otherwise determined by applicable Environmental Laws, any hazardous substance as defined or otherwise determined by applicable Environmental Laws or any toxic substance, oil or hazardous material or other chemical or substance regulated by any Environmental Laws ("Hazardous Substances") which Seller or any of its predecessors in interest has generated, transported or disposed of has been found at any site at which a federal, provincial or municipal agency or other third party has conducted or has ordered that Seller or any of its predecessors in interest conduct a remedial investigation, removal or other response action pursuant to

any Environmental Law; or (C) that Seller or any of its predecessors in interest is or shall be named a party to any claim, action, cause of action, complaint (contingent or otherwise), legal or administrative proceeding arising out of any third party's incurrance of costs, expenses, losses or

damages of any kind whatsoever in connection with the release of Hazardous Substances; and

(iii) (A) no portion of any of the Real Estate or any other real property owned, leased or operated by Seller has been used for the handling, manufacturing, processing, storage or disposal of Hazardous Substances except in accordance with applicable Environmental Laws, and no underground tank or other underground storage receptacle for Hazardous Substances is located on such properties; (B) in the course of any activities conducted by Seller, no Hazardous Substances have been generated or are being used on such properties except in accordance with applicable Environmental Laws; and (C) there have been no releases (i.e., any past or present releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, disposing or dumping) or threatened releases of Hazardous Substances on, upon, into or from any of such properties except in accordance with applicable Environmental Laws.

3.11. Litigation and Governmental Claims. There is no pending suit, action or litigation, or administrative, arbitration or other proceeding or governmental investigation or inquiry, to which Seller is a party or to which its assets are subject which would, if decided against Seller, individually or in the aggregate, have a Business Material Adverse Effect. To the knowledge of Seller, there are no such proceedings threatened which would, if decided against Seller, individually or in the aggregate, have a Business Material Adverse Effect.

3.12. Suppliers. Schedule 3.12 sets forth a list of all vendors or other suppliers from or through whom Seller has purchased goods and services relating primarily to the Business, other than utilities, in excess of \$15,000 in the aggregate during the twelve (12) month period ending June 29, 2003. Except as set forth on Schedule 3.12, there are no claims pending or, to the knowledge of Seller overtly threatened, by any of such suppliers.

3.13 Permits. Seller holds all Permits which are required to permit it to conduct the Business as presently conducted, except where the failure to hold such Permits would not have a Business Material Adverse Effect, and all such Permits are in full force and effect, except where the failure to be in full force and effect would not reasonably be likely to have a Business Material Adverse Effect.

3.14. Employment Matters. Schedule 3.14 lists all the employees of Seller engaged in the Business as of the date of this Agreement and the age, position, status, length of service, compensation and benefits of each of them, respectively. Except as set out in Schedule 3.14, Seller is not a party to or bound by any contracts or requirements of applicable law in respect of any employee engaged in the Business, including:

- (a) any contracts or arrangements for the employment or statutory re-employment of any employee engaged in the Business; or

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- (b) any bonus, deferred compensation, profit sharing, retirement, hospitalization insurance, or other plans or arrangements providing employee benefits, except for the plans providing employee benefits described in Schedule 3.20.

Seller does not participate in or offer to its employees any form of pension plan.

There are no disputes of a material nature pending between Seller and any of the employees engaged in the Business. In connection with the Business, Seller has complied in all material respects with all employment laws including any provisions thereof relating to wages, hours and the payment of applicable employment-related taxes, and is not liable for any material arrears of wages or any employment-related taxes or penalties for failure to comply with any of the foregoing.

Except as set out in Schedule 3.14:

- (a) Seller is not a party to any collective bargaining agreement, contract or legally binding commitment to any trade union or employee organization or group in respect of or affecting employees of the Business;
- (b) Seller is not currently engaged in any labor negotiation;
- (c) Seller is not a party to any application, complaint or other proceeding under any statute;
- (d) the Business is not engaged in any unfair labor practice and Seller is not aware of any pending or threatened complaint regarding any alleged unfair labor practices;
- (e) there is no strike, labor dispute, work slow down or stoppage pending or threatened against the Business;
- (f) there is no grievance or arbitration proceeding arising out of or under any collective bargaining agreement which is pending or threatened against the Business;
- (g) the Business has not experienced any material work stoppage in the last two years;
- (h) Seller is not the subject of any union organization effort;
- (i) Seller is not the subject of any current orders or charges against it under the Occupational Health and Safety Act (Ontario); and
- (j) all levies, assessments of any kind and penalties under the Workplace Safety and Insurance Act 1997 (Ontario) have been paid and no assessment has taken place in the last two years.

3.15. Material Contracts. Set forth on Schedule 3.15 are complete and accurate lists of all of the following categories of contracts and commitments to which Seller is a party or bound and which relate to the Business:

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- (i) contracts with any labor union; employee benefit plans or contracts; and employment, consulting or similar contracts, including confidentiality agreements;
- (ii) leases, whether as lessor or lessee, of the Real Estate, or of any personal property providing for annual rental payments in excess of \$5,000;
- (iii) agreements providing for liens, claims or encumbrances on the Purchased Assets;
- (iv) contracts (other than purchase orders in the ordinary course of business) with third parties that (X) involve aggregate payments by the Purchased Store of more than \$5,000, (Y) do not terminate or are not terminable by Seller without penalty within 45 days after the Closing Date or (Z) contain covenants limiting the freedom of Seller to compete or deal with competitors of the other party; and
- (v) contracts not made in the ordinary course of the Business.

To the extent requested, Seller has furnished or made available accurate and complete copies of the foregoing contracts and agreements to Purchaser. All such contracts are valid, binding, subsisting and enforceable obligations of Seller.

3.16. Transaction with Affiliates. Upon the occurrence of the Closing, neither Seller, nor any Affiliate of Seller will have any material interest in or will own any material property or material right used principally in the conduct of the Business. The term "Affiliate" shall mean Seller, any officer or director of Seller, any member of the immediate family of the forgoing persons or any corporation, partnership, trust or other entity in which Seller, the officers and directors of Seller or any of such family member of such persons has a substantial interest or is a director, officer, partner or trustee.

3.17 Compliance with Laws. Seller is in compliance with all material laws, statutes, governmental regulations and all judicial or administrative tribunal orders, judgments, writs, injunctions, decrees or similar commands applicable to the Business. In respect of the Business, Seller has not been charged with, or received notice of any investigation with respect to, any material violation of any provision of any federal, provincial or municipal law or administrative regulation.

3.18 Insurance. Schedule 3.18 hereto lists all policies of fire, liability, workmen's compensation, life, property and casualty and other insurance owned or held by Seller in connection with the operation of the Business or otherwise covering the Purchased Assets. Such policies of insurance are of the kind, cover such risks and are in such amounts as are consistent with prudent business practice. All such policies (i) are in full force and effect and (ii) are sufficient in all material respects for compliance by Seller with all requirements of law and all agreements to which Seller is a party. Seller is not in default with respect to its obligations under any of such insurance policies and has not received any notification of cancellation of any such insurance policies.

3.19. Brokers and Finders. Seller has not engaged any person to act or render services as a broker, finder or similar capacity in connection with the transactions contemplated herein and no other person has, as a result of any agreement or action by Seller, any right or valid claim against Purchaser or any of Purchaser's affiliates for any commission, fee or other compensation as a broker or finder, or in any similar capacity in connection with the transactions contemplated herein.

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#### 3.20 Employee Benefit Plans.

(a) Schedule 3.20 lists all the employee benefit, health, welfare, supplemental unemployment benefit, bonus, pension, profit sharing, deferred compensation, stock compensation, stock purchase, retirement, hospitalization insurance, medical, dental, legal, disability and similar plans or arrangements or practices relating to the employees of Seller engaged in the Business or former employees of Seller engaged in the Business which are currently maintained or were maintained, at any time in the last five calendar years (the "Plans"). None of the Plans is a registered pension plan under Applicable Employee Benefit Laws (as defined below).

(b) All of the Plans are and have been established, registered, qualified, invested and administered, in all respects, in accordance with all laws, regulations, orders or other legislative, administrative or judicial promulgations applicable to the Plans ("Applicable Employee Benefit Laws"). No fact or circumstance exists that could adversely affect the tax-exempt status of an Plan.

(c) All obligations regarding the Plans have been satisfied, there are no outstanding defaults or violations by any party to any Plan and no taxes, penalties or fees are owing or exigible under any of the Plans.

(d) Seller may unilaterally amend, modify, vary, revoke or terminate, in whole or in part, each Plan and take contribution holidays under or withdraw surplus from each Plan, subject only to approvals required by Applicable Employee Benefit Laws.

(e) No Plan, nor any related trust or other funding medium thereunder, is subject to any pending investigation, examination or other proceeding, action or claim initiated by any governmental agency

or instrumentality, or by any other party (other than routine claims for benefits), and there exists no state of facts which after notice or lapse of time or both could reasonably be expected to give rise to any such investigation, examination or other proceeding, action or claim or to affect the registration of any Plan required to be registered.

(f) All contributions or premiums required to be made by Seller under the terms of each Plan or by Applicable Employee Benefit Laws have been made in a timely fashion in accordance with Applicable Employee Benefit Laws and the terms of the Plans, and Seller does not have, and as of the Closing will not have, any liability (other than liabilities accruing after the Closing) with respect to any of the Plans. Contributions or premiums will be paid by Seller on an accrual basis for the period up to the Closing even though not otherwise required to be made until a later date.

(g) No amendments have been made to any Plan and no improvements to any Plan have been promised and no amendments or improvements to a Plan will be made or promised before the Closing.

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(h) There have been no improper withdrawals, applications or transfers of assets from any Plan or the trusts or other funding medium relating thereto, and neither Seller nor any of its agents has been in breach of any fiduciary obligation with respect to the administration of the Plans or the trusts or other funding medium relating thereto.

(i) Subject to approvals under Applicable Employee Benefit Laws, Seller may amend, revise or merge any Plan or the assets transferred from any Plan with any other arrangement, plan or fund.

(j) Seller has furnished to Purchaser true, correct and complete copies of all the Plans as amended as of the date hereof together with all related documentation including funding agreements, actuarial reports, funding and financial information returns and statements, all professional opinions (whether or not internally prepared) with respect to each Plan, all material internal memoranda concerning the Plans, copies of material correspondence with all regulatory authorities with respect to each Plan and plan summaries, booklets and personnel manuals. No material changes have occurred to the Plans or are expected to occur which would affect the actuarial reports or financial statements required to be provided to Purchaser pursuant to this Section 3.20.

(k) Each Plan is fully funded or fully insured on both an ongoing and solvency basis pursuant to the actuarial assumptions and methodology set out in Schedule 3.20.

(l) None of the Plans enjoys any special tax status under Applicable Employee Benefit Laws, nor have any advance tax rulings been sought or received in respect of the Plans.

(m) All employee data necessary to administer each Plan has been provided by Seller to Purchaser and is true and correct.

(n) No insurance policy or any other contract or agreement affecting any Plan requires or permits a retroactive increase in premiums or payments due thereunder. The level of insurance reserves under each insured Plan is reasonable and sufficient to provide for all incurred but unreported claims.

(o) Except as disclosed in Schedule 3.20, none of the Plans provides benefits to retired employees or to the beneficiaries or dependents of retired employees.

(p) In general, there are no facts or circumstances that could, directly or indirectly, subject Purchaser or any of its affiliates to any material liability of any nature with respect to any Plan. It is expressly acknowledged by Seller that no such liability shall constitute an Assumed Liability within the meaning of Section 1.2 hereof.



3.21 Deductions at Source. Seller has fulfilled all requirements under the Income Tax Act (Canada) and the Regulations thereto, the Canada Pension Plan, the Employment Insurance Act (Canada) and any applicable provincial legislation, for withholding of amounts from employees and has remitted all amounts withheld to the appropriate authorities within the prescribed times.

3.22 Residence of Seller. Seller is not a non-resident of Canada within the meaning of section 116 of the Income Tax Act (Canada).

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3.23 GST. The Purchased Assets constitute all or substantially all of the property that can reasonably be regarded as being necessary for Purchaser to be capable of carrying on the Business. Seller is a "registrant" under Part IX of the Excise Tax Act (Canada).

4. REPRESENTATIONS AND WARRANTIES OF PURCHASER. Purchaser hereby represents and warrants to Seller as follows:

4.1. Organization and Good Standing. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Missouri.

4.2. Corporate Power and Authority. Purchaser has the corporate power and authority and all licenses and permits required by governmental authorities to execute, deliver and perform this Agreement.

4.3. Binding Effect. This Agreement has been duly authorized, executed and delivered by Purchaser and is the legal, valid and binding obligation of it, enforceable in accordance with its terms except that (i) enforceability may be limited by bankruptcy, insolvency, or other similar laws affecting creditors' rights and (ii) the availability of equitable remedies may be limited by equitable principles of general applicability.

4.4. No Conflicts; Consents and Approvals.

(a) Except as contemplated elsewhere herein, neither the execution and delivery by Purchaser of this Agreement nor the consummation by it of the transactions contemplated hereby will violate, breach, be in conflict with, or constitute a default under, or permit the termination or the acceleration of maturity of, or result in the imposition of any lien, claim, or encumbrance upon any property or asset of Purchaser pursuant to (i) Purchaser's certificate of incorporation or bylaws or (ii) any note, bond, indenture, mortgage, deed of trust, evidence of indebtedness, loan or lease agreement, other agreement or instrument which is material to Purchaser's ability to consummate the transactions contemplated hereby.

(b) Except as contemplated elsewhere herein, Purchaser is not required to submit any notice, declaration, report or other filing or registration with any governmental or regulatory authority or instrumentality in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

(c) Except as contemplated elsewhere herein and except as set forth in Schedule 4.4, no waiver, consent, approval or authorization of any governmental or regulatory authority or instrumentality or any other person is required to be obtained or made by Purchaser in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

4.5. Brokers and Finders. Purchaser has not engaged any person to act or render services as a broker, finder or similar capacity in connection with the transactions contemplated herein and no person has, as a result of any agreement or action by Purchaser any right or valid claim against Seller or any of Seller's affiliates for any commission, fee or other compensation as a broker or finder, or in any similar capacity in connection with the transactions contemplated herein.

4.6. GST. Purchaser is a "registrant," or will be at Closing, under Part IX of the Excise Tax Act (Canada).

## 5. CERTAIN COVENANTS.

### 5.1. Consents and Approvals.

(a) Each of the parties hereto shall, and shall cause each of its affiliates to, use its reasonable efforts to obtain at the earliest practicable date any approvals, authorizations and consents necessary to consummate the transactions contemplated by this Agreement and take such actions as the other parties may reasonably request to consummate the transactions contemplated by this Agreement and diligently attempt to satisfy, to the extent within its control, all conditions precedent to its obligations to close the transactions contemplated by this Agreement. Without limiting the foregoing, Seller agrees to use its reasonable efforts to obtain the consent of its shareholders to the sale of the Purchased Assets hereunder, and in that regard shall call a special meeting of its shareholders and distribute such documents and circulars as necessary for such meeting as soon as practicable following the execution of this Agreement.

(b) Seller shall cooperate as reasonably necessary with Purchaser's efforts to obtain the required consents of alcoholic beverage agencies (the "Liquor Consents"), including the Alcohol and Gaming Commission of Ontario, to the consummation of the transactions contemplated herein, including the transfer of any applicable liquor license or licenses. Such cooperation shall include completing any application or other documents or forms required by the Alcohol and Gaming Commission of Ontario and any other governmental entity in order to process the Liquor Consents and the transfer of any and all applicable liquor license or licenses.

(c) Purchaser shall cooperate as reasonably necessary with Seller's efforts to obtain the consent of the lessor of the Purchased Store site to the consummation of the transactions contemplated herein and the assignment of the Lease to Purchaser, on terms acceptable to Purchaser (the "Landlord Consent").

(d) Nothing in this Section 5.1 shall require a party to expend any monies to obtain any approval or consent required hereunder, except for customary attorneys' fees and filing fees incidental to the transactions contemplated hereby or as otherwise specifically required under this Agreement.

### 5.2. Access to Information and Purchased Restaurant.

(a) Between the date of this Agreement and the Closing Date, Seller will provide to Purchaser and its accountants, counsel and other authorized representatives reasonable access to the premises, management, employees, vendors, customers, properties, contracts, commitments, books and records of the Business and will cause its officers to furnish to Purchaser and its authorized representatives such financial, technical and operating data and other information pertaining to the Business, as Purchaser shall from time to time reasonably request.

(b) Between the date of this Agreement and the Closing Date, Seller will provide to Purchaser copies of the unaudited balance sheets and results of operations for the Business for

monthly periods subsequent to June 29, 2003, including any audit of the financial statements of Seller's year ended June 29, 2003, if Seller chooses to have one completed, as promptly as practicable after the preparation thereof.

(c) Purchaser and its representatives shall maintain the confidentiality of all information (other than information which is generally available to the public or is available to Purchaser by

virtue of its licensor relationship with Seller) concerning Seller acquired pursuant to the transactions contemplated hereby in the event that the sale of the Purchased Assets is not consummated. All files, records, documents, information, data and similar items relating to the confidential information of Seller shall remain the exclusive property of Seller prior to the Closing and shall be promptly delivered to Seller upon any termination of this Agreement.

### 5.3. Maintenance of Business and the Purchased Assets.

(a) Seller covenants that between the date hereof and the Closing, except as contemplated hereby or with the prior consent of Purchaser, it will refrain from doing any of the following in respect of the Business: (i) entering into any transaction other than in the ordinary course of business, (ii) permitting any encumbrance, mortgage or pledge on any Purchased Asset, (iii) disposing of any material Purchased Asset except for the sale of inventory in the ordinary course of business, (iv) amending, renewing or modifying any of the Contracts without the prior written consent of Purchaser, (v) entering into any employment contract or make any change in the compensation payable or to become payable to any of its officers, executives or managers or other employees engaged primarily in the Business, other than anniversary increases or promotions consistent with past practice, (vi) amending any of its leases relating to the Real Estate or (vii) entering into any agreement, commitment or arrangement with respect to the foregoing. Without limiting the foregoing, Seller agrees that it will not make any capital expenditure, nor will it enter into any new contract or amend any existing contract, unless it first notifies Purchaser and receives Purchaser's prior written consent.

(b) Without the consent of Purchaser, Seller shall not transfer or terminate the employment of any employee engaged in the Business to any other restaurant operated or affiliated with Seller or its affiliates.

(c) Seller shall maintain insurance, in respect of the Business and Purchased Assets, of the kind, in the amount and with the insurers as currently maintained or equivalent insurance with substitute insurers.

### 5.4. Employees.

(a) Purchaser may, in its discretion, offer employment, as of the Closing Date, to some or all salaried and hourly employees employed by Seller in the Business immediately prior to Closing, including those employees on vacation, leave of absence, disability or layoff. The employees of Seller who accept employment with Purchaser after the Closing Date are hereinafter referred to as the "Transferred Employees". Purchaser shall assume all accrued salary, wages, unpaid vacation, personal days and bonuses due to the Transferred Employees as of the Closing Date and not otherwise paid by Seller at Closing.

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(b) Except as set forth in subsection (c) below, Seller shall retain responsibility for any liability under its Plans (as defined in Section 3.20) in respect of periods prior to the Closing Date.

(c) Except to the extent otherwise expressly provided herein, neither Purchaser nor its affiliates shall be obligated to provide any severance or separation pay benefits to any Transferred Employee on account (in whole or in part) of the transactions contemplated by this Agreement, and such benefits (if any) shall be payable by Seller.

5.5. No Shopping. From the date hereof through and until the earlier of termination of this Agreement or Closing, neither Seller nor any of its affiliates, employees, officers, directors, agents or advisors shall, directly or indirectly, (a) solicit, initiate or encourage any inquiries, proposals or offers from any third party relating to any acquisition of the Business or the Purchased Assets, or (b) with respect to any effort or attempt by any third party to do or seek any of the foregoing, (i) participate in any discussions or negotiations, (ii) furnish to any third party any information with respect to,

or afford access to the properties, books or records of or relating to, the Business or Purchased Assets, or (iii) otherwise cooperate in any way with, or assist or participate in, or facilitate or encourage any such effort. Seller shall promptly notify Purchaser if any such proposal or offer or any inquiry or contact with any third party with respect thereto is made.

5.6. Non-Solicitation of Employees. For a period of three years after the date of the Closing (the "Non-solicitation Period"), (i) Seller shall not attempt to or assist any other person in attempting to encourage any director, officer, employee or agent of Purchaser or its subsidiaries or affiliates to terminate such relationship with Purchaser or such subsidiary or affiliate, as the case may be, and (ii) Purchaser shall not attempt to or assist any other person in attempting to encourage any director, officer, employee or agent of Seller or its subsidiaries or affiliates to terminate such relationship with Seller or such subsidiary or affiliate.

5.7. Non-Competition. None of Seller nor any of their Affiliates, shall own, operate or manage, either directly or through any subsidiary or affiliated company, in the Province of Ontario for a period of three (3) years from and after the Closing Date any business that competes with the Business as it is operated as of the Closing Date.

5.8. Purchase Of Tail Coverage By Seller. For any "claims made" policy of insurance that is in effect as of the date of this Agreement with respect to the Business, Seller will purchase insurance coverage or an endorsement that extends the reporting period for three (3) years from the Closing Date with respect to claims arising prior to the Closing Date.

6. CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER. The obligations of Seller to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction on or before the Closing Date of each of the following conditions:

6.1. Compliance. Purchaser shall have, or shall have caused to be, satisfied or complied with and performed in all material respects, all terms, covenants and conditions of this Agreement to be complied with or performed by it on or before the Closing Date, including delivery of the documents to be delivered by Purchaser under Section 2.2.

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6.2. Representations and Warranties. All of the representations and warranties made by Purchaser in this Agreement and in all certificates and other documents delivered by Purchaser to Seller pursuant hereto, shall have been true and correct in all material respects as of the date hereof, and shall be true and correct in all material respects at the Closing Date with the same force and effect as if such representations and warranties had been made at and as of the Closing Date, except for changes permitted or contemplated by this Agreement.

6.3. Third Party Consents. Seller shall have obtained all authorizations, approvals or consents required to permit the consummation of the transactions contemplated hereby, including the consent of Seller's shareholders, and such consents shall be in full force and effect.

7. CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER. Except as may be waived by Purchaser, the obligations of Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction, on or before the Closing Date, of each of the following conditions:

7.1. Compliance. Seller shall have, or shall have caused to be, satisfied or complied with and performed in all material respects all terms, covenants, and conditions of this Agreement to be complied with or performed by Seller on or before the Closing Date, including delivery of the documents to be delivered by Seller under Section 2.2.

7.2. Representations and Warranties. All of the representations and warranties made by Seller in this Agreement, the exhibits attached hereto and in all certificates and other documents delivered by Seller pursuant hereto, shall have been true and correct in all material respects as of the date hereof, and shall be true and correct in all material respects at the Closing Date with the same force and effect as if such representations and warranties had been made at and as of the Closing Date, except for changes permitted or contemplated by this

Agreement.

7.3. Seller Consents. Seller shall have received (a) the Landlord Consent, which shall be in form and substance satisfactory to Purchaser and its counsel, and (b) the consent of Seller's shareholders to this Agreement and the sale of the Purchased Assets, and such consents shall be in full force and effect.

7.4. Third Party Consents. Purchaser shall have obtained all authorizations, approvals or consents required to permit the consummation of the transactions contemplated hereby, and such consents shall be in full force and effect. Purchaser shall have obtained the approval of its Board of Directors with respect to the transactions contemplated by this Agreement. Purchaser shall have obtained the consent of its lenders with respect to the transactions contemplated by this Agreement.

7.5. Due Diligence. Purchaser's due diligence investigation of the Business and Purchased Assets shall have been completed to Purchaser's sole satisfaction; provided, however, that if Purchaser has not notified Seller of the failure of this condition within fifty (50) days after the date of this Agreement, the condition set forth in this section shall be deemed to have been satisfied.

7.6. Schedules. Seller shall have delivered to Purchaser all schedules required to be attached hereto, but which were not attached as of the date of this Agreement, and the form and content of such schedules shall be acceptable to Purchaser in its sole discretion.

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7.7. Bulk Sales Compliance. Seller shall have provided to Purchaser evidence satisfactory to Purchaser that the bulk sales legislation in each of the provinces in which the Purchased Assets are located has been complied with or that the sale of the Purchased Assets is exempt from compliance with such legislation.

## 8. INDEMNIFICATION.

8.1. Indemnification of Purchaser. Subject to the limitations set forth in Sections 8.3 and 8.4, Seller shall indemnify and hold Purchaser harmless from, against, for and in respect of (i) any and all damages, losses, settlement payments, obligations, liabilities, claims, actions or causes of action and encumbrances suffered, sustained, incurred or required to be paid by Purchaser, net of any resulting income tax benefits to Purchaser, (A) because of the breach of any written representation, warranty, agreement or covenant of Seller contained in this Agreement or (B) in respect of any liability of the Purchased Store (other than the Assumed Liabilities) relating to periods at or prior to the Closing; and (ii) all reasonable costs and expenses (including, without limitation, attorneys' fees, interest and penalties) incurred by Purchaser in connection with any action, suit, proceeding, demand, assessment or judgment incident to any of the matters indemnified against in this Section 8.1.

8.2. Indemnification of Seller. Subject to the limitations set forth in Sections 8.3 and 8.4, Purchaser shall indemnify and hold Seller harmless from, against, for and in respect of: (i) any and all damages, losses, settlement payments, obligations, liabilities, claims, actions or causes of action and encumbrances suffered, sustained, incurred or required to be paid by Seller, net of any resulting income tax benefits to Seller, (A) because of the breach of any written representation, warranty, agreement or covenant of Purchaser contained in this Agreement or (B) in respect of any of the Assumed Liabilities, or in respect of any liability of the Purchased Store relating to periods after the Closing; and (ii) all reasonable costs and expenses (including, without limitation, attorneys' fees, interest and penalties) incurred by Seller in connection with any action, suit, proceeding, demand, assessment or judgment incident to any of the matters indemnified against in this Section 8.2.

8.3. Survival of Representations, Warranties and Covenants. All representations, warranties, covenants and agreements made by any party to this Agreement or pursuant hereto shall be deemed to be material and to have been relied upon by the parties hereto, and shall survive until the first anniversary of the Closing Date (except for the representations pursuant to Section 3.7 and 3.10(g), which shall survive until the third anniversary of the Closing Date,

and those under Section 3.8, which shall survive indefinitely). Notice of any claim, whether made under the indemnification provisions hereof or otherwise, based on a breach of a representation, warranty, covenant or agreement must be given prior to the expiration of such representation, warranty, covenant or agreement; and any claim not made within such period shall be of no force or effect. The representations and warranties hereunder shall not be affected or diminished by any investigation at any time by or on behalf of the party for whose benefit such representations and warranties were made.

8.4. General Rules Regarding Indemnification. The obligations and liabilities of each indemnifying party hereunder with respect to claims resulting from the assertion of liability by the other party shall be subject to the following terms and conditions:

(a) The indemnified party shall give prompt written notice (which in no event shall exceed 30 days from the date on which the indemnified party first became aware of such claim or

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assertion) to the indemnifying party of any claim which might give rise to a claim by the indemnified party against the indemnifying party based on the indemnity agreements contained in Sections 8.1 or 8.2 hereof, stating the nature and basis of said claims and the amounts thereof, to the extent known;

(b) If any action, suit or proceeding is brought against the indemnified party with respect to which the indemnifying party may have liability under the indemnity agreements contained in Sections 8.1 or 8.2 hereof, the action, suit or proceeding shall, at the election of the indemnifying party, be defended (including all proceedings on appeal or for review which counsel for the indemnified party shall deem appropriate) by the indemnifying party. The indemnified party shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the indemnified party's own expense unless the employment of such counsel and the payment of such fees and expenses both shall have been specifically authorized in writing by the indemnifying party in connection with the defense of such action, suit or proceeding. Notwithstanding the foregoing, (A) if there are defenses available to the indemnified party which are inconsistent with those available to the indemnifying party to such extent as to create a conflict of interest between the indemnifying party and the indemnified party, the indemnified party shall have the right to direct the defense of such action, suit or proceeding insofar as it relates to such inconsistent defenses, and the indemnifying party shall be responsible for the reasonable fees and expenses of the indemnified party's counsel insofar as they relate to such inconsistent defenses, and (B) if such action, suit or proceeding involves or could have an effect on matters beyond the scope of the indemnity agreements contained in Sections 8.1 and 8.2 hereof, the indemnified party shall have the right to direct (at its own expense) the defense of such action, suit or proceeding insofar as it relates to such other matters. The indemnified party shall be kept fully informed of such action, suit or proceeding at all stages thereof whether or not it is represented by separate counsel.

(c) The indemnified party shall make available to the indemnifying party and its attorneys and accountants all books and records of the indemnified party relating to such proceedings or litigation and the parties hereto agree to render to each other such assistance as they may reasonably require of each other in order to ensure the proper and adequate defense of any such action, suit or proceeding.

(d) The indemnified party shall not make any settlement of any claims without the written consent of the indemnifying party.

(e) An indemnified party shall not make any claim hereunder unless and until it has incurred damages and expenses of a cumulative aggregate in an amount (the "Basket Amount") equal to \$10,000, and shall thereafter be entitled to make a claim only for amounts incurred in excess of such Basket Amount.

9. MISCELLANEOUS.

9.1. Termination. This Agreement and the transactions contemplated hereby may be terminated at any time on or before the Closing Date:

(i) by mutual consent of Seller and Purchaser;

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(ii) by Purchaser if there has been a material misrepresentation or breach of warranty in the representations and warranties of Seller set forth herein or if there has been any material failure on the part of Seller to comply with its obligations hereunder;

(iii) by Seller if there has been a material misrepresentation or breach of warranty in the representations and warranties of Purchaser set forth herein or if there has been any material failure on the part of Purchaser to comply with its obligations hereunder;

(iv) by either Purchaser or Seller if the transactions contemplated by this Agreement have not been consummated by October 1, 2003, unless the parties otherwise agree or unless such failure of consummation is due to the failure of the terminating party to perform or observe the covenants and agreements hereof to be performed or observed by it at or before the Closing Date;

(v) by either Purchaser or Seller if the transactions contemplated hereby violate any order, decree, or judgment of any court or governmental body or agency having competent jurisdiction;

(vi) by either Purchaser or Seller if Seller's shareholders have not duly authorized and approved this Agreement and the transactions contemplated by this Agreement, to the extent required by applicable law, on or before October 1, 2003;

(vii) by Purchaser at any time prior to September 15, 2003 if it is not satisfied for any reason, or no reason at all, with its due diligence inspection as contemplated in Section 7.5; and

(viii) by Purchaser if any one or more of the following occur (A) Purchaser does not receive the consent of its lenders to this Agreement and the transactions contemplated hereby prior to October 1, 2003, or if prior to that time such lenders indicate that they will not give such approval, (B) Purchaser's Board of Directors does not approve this Agreement prior to October 1, 2003, or if prior to that time the Board of Directors indicates that it will not give such approval, (C) Purchaser does not receive the Landlord Consent in a form and substance satisfactory to Purchaser and its counsel in their discretion, or (D) if the Permits that are to be transferred at Closing to Purchaser are not all the licenses, permits or other rights currently used by Seller, or otherwise necessary for Purchaser, in the operation of the Business.

In the event of the termination of this Agreement pursuant to this Section 9.1, this Agreement shall forthwith become null and void and of no further force or effect; provided, however, that the parties hereto shall remain liable for any breach of this Agreement prior to its termination.

9.2. Expenses. Each of Purchaser and Seller shall pay its own expenses incurred in connection with this Agreement and the transactions contemplated hereby. For purposes of determining the responsibility for fees and expenses in connection with the transfer of the Real Estate, Purchaser shall be responsible for all title policy premiums, title search and examination fees and survey charges; Seller shall be responsible for all deed or lease transfer taxes; and Purchaser and Seller shall bear equally any recording fees and any transfer or sales taxes in respect of personal property.

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9.3. Entire Agreement. This Agreement and the exhibits hereto contain the complete agreement among the parties with respect to the transactions contemplated hereby and supersede all prior agreements and understandings, oral or written, among the parties with respect to such transactions. Section and other headings are for reference purposes only and shall not affect the interpretation or construction of this Agreement. The parties hereto have not made any representation or warranty except as expressly set forth in this Agreement or in any certificate or schedule delivered pursuant hereto.

9.4. Public Announcements. No party to this Agreement shall issue any press release relating to, or otherwise publicly disclose, the transactions contemplated by this Agreement without the prior approval of the other parties. Notwithstanding the foregoing, any party may make such disclosure as may be required by law, provided the disclosing party obtains from the other party prior approval of the substance of the proposed disclosure (such as the content of a proposed press release), which approval may not be unreasonably withheld or delayed.

9.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and such counterparts together shall constitute only one original.

9.6. Notices. All notices, demands, requests or other communications that may be or are required to be given, served or sent by any party to any other party pursuant to this Agreement shall be in writing and shall be transmitted by a reputable overnight courier service or by hand delivery or facsimile transmission, addressed as follows:

(i) If to Purchaser:

Dave and Buster's, Inc.  
2481 Manana Drive  
Dallas, Texas 75220  
Attn: John Davis, Vice President and General Counsel  
Fax: (214) 357-9588

with copy to:

Hallett & Perrin, P.C.  
2001 Bryan Street, Suite 3900  
Dallas, Texas 75201  
Attn: Bruce H. Hallett  
Fax: (214) 922-4170

(ii) If to Seller:

Funtime Hospitality Corp.  
120 Interchange Way  
Concord, Ontario L4K 5L3  
Attn: Michael Mandel, Chairman and CEO  
Fax: (905) 760-7610

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with copy to:

Irwin Singer  
24 Hazelton Avenue  
Toronto, Ontario M5R 2E2  
Fax: (416) 920-0815

Each party may designate by notice in writing a new address to which any notice, demand, request or communication may thereafter be so given, served, or sent. Each notice, demand, request or communication that is mailed, delivered, or transmitted in the manner described above shall be deemed sufficiently given, served, sent and received for all purposes at such time as it is delivered to the addressee (with the return receipt, the delivery receipt, fax confirmation sheet or the affidavit of courier or messenger being deemed conclusive evidence of such delivery) or at such time as delivery is refused by the addressee upon presentation.

9.7. Assignment; Successors and Assigns. This Agreement may not be



assigned by either of the parties hereto without the written consent of all the other parties; provided, however, that Purchaser shall be entitled to assign this Agreement to one or more subsidiary corporations so long as Purchaser remains liable for the payment of the Purchase Price hereunder. Subject to the preceding sentence, this Agreement and the rights, interests and obligations hereunder shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

9.8. GOVERNING LAW; VENUE. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS. THE PARTIES AGREE THAT ANY ACTION TO ENFORCE, INTERPRET, OR RESOLVE ANY DISPUTE WITH RESPECT TO ANY PROVISION OF THIS AGREEMENT MAY BE BROUGHT IN DALLAS COUNTY, TEXAS, OR IN THE PROVINCE OF ONTARIO, AND ALL PARTIES HERETO AGREE THAT ANY LITIGATION DIRECTLY OR INDIRECTLY RELATING TO THIS AGREEMENT MUST BE BROUGHT BEFORE AND DETERMINED BY A COURT OF COMPETENT JURISDICTION WITHIN ONE OF THOSE JURISDICTIONS. EACH OF THE PARTIES FURTHER ACKNOWLEDGE THAT THE FOREGOING IS APPROPRIATE AND AGREE NOT TO RAISE ANY ARGUMENT THAT SUCH VENUE IS IN ANY WAY UNDULY INCONVENIENT FOR ANY OF THEM, WITH THEIR EXECUTION HEREOF BEING EVIDENCE OF THEIR AGREEMENT TO SUBMIT TO THE JURISDICTION OF SUCH COURTS.

9.9. Waiver and Other Action. This Agreement may be amended, modified, or supplemented only by a written instrument executed by the parties against which enforcement of the amendment, modification or supplement is sought.

9.10. Severability. If any provision of this Agreement is held to be illegal, invalid, or unenforceable, such provision shall be fully severable, and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision were never a part hereof; the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance; and in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as part of this Agreement, a provision as similar in its terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

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9.11. Third-Party Beneficiaries. This Agreement and the rights, obligations, duties and benefits hereunder are intended for the parties hereto, and no other person or entity shall have any rights, obligations, duties and benefits pursuant hereto.

9.12. Mutual Contribution. The parties to this Agreement and their counsel have mutually contributed to its drafting. Consequently, no provision of this Agreement shall be construed against any party on the ground that such party drafted the provision or caused it to be drafted or the provision contains a covenant of such party.

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

SELLER:

FUNTIME HOSPITALITY CORP.,  
an Ontario corporation

By: /s/ Michael Mandel

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Name: Michael Mandel

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Title: CEO

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PURCHASER:

DAVE AND BUSTER'S, INC.,  
a Missouri corporation

By: /s/ David O. Corriveau

Name: David O. Corriveau

Title: President

DAVE & BUSTER'S, INC.  
 COMPUTATION OF RATIO OF EARNINGS  
 TO FIXED CHARGES  
 (dollars in thousands, except ratios)

	Year to Date Ended February 1, 2004 -----
Income before provision for income taxes and cumulative effect of a change in an accounting principle	\$ 6,837
Fixed charges:	
Interest expense **	4,075
Capitalized interest	56
Estimate of interest included in rental expense ***	3,971
	-----
Total fixed charges	\$ 8,102
Income before provision for income taxes and cumulative effect of a change in an accounting principle, less capitalized interest	\$ 14,883
	=====
Ratio of earnings to fixed charges:	1.84

\*\* Interest expense includes interest in association with debt and amortization of debt issuance costs.

\*\*\* Fixed charges include our estimate of interest included in rental payments made under operating leases.

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, James W. Corley, Chief Executive Officer of Dave & Buster's Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dave & Buster's Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ JAMES W. CORLEY

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James W. Corley  
Chief Executive Officer

Date: September 11, 2003

RULE 13a-14(a)/15D-14(a) CERTIFICATION

I, W. C. Hammett, Jr., Chief Financial Officer of Dave & Buster's Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dave & Buster's Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ W. C. HAMMETT, JR.

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W. C. Hammett, Jr.  
Chief Financial Officer

Date: September 11, 2003

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of Dave & Buster's, Inc. (the "Company") on Form 10-Q for the period ended August 3, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James W. Corley, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 11, 2003

/s/ JAMES W. CORLEY

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James W. Corley  
Chief Executive Officer

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of Dave & Buster's, Inc. (the "Company") on Form 10-Q for the period ended August 3, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. C. Hammett, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 11, 2003

/s/ W. C. HAMMETT, JR.

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W. C. Hammett, Jr.  
Chief Financial Officer