

Dave & Buster's Entertainment, Inc.  
Form 10-Q  
September 14, 2018  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED August 5, 2018**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**Commission File No. 001-35664**

**Dave & Buster's Entertainment, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**35-2382255**  
**(I.R.S. Employer**  
**Identification No.)**

**2481 Mañana Drive**  
**Dallas, Texas 75220**

**(Address of principal executive offices)**

**(Zip Code)**

**(214) 357-9588**

**(Registrant's telephone number, including area code)**

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of September 11, 2018, there were 38,830,928 shares of the Issuer's common stock outstanding.



**Table of Contents**

**DAVE & BUSTER S ENTERTAINMENT, INC.**  
**FORM 10-Q FOR QUARTERLY PERIOD ENDED AUGUST 5, 2018**

**TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| <b>PART I</b>  |             |
| <b><u>FINANCIAL INFORMATION</u></b>  |             |
| ITEM 1. <u>FINANCIAL STATEMENTS</u>  | 3           |
| ITEM 2. <u>MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 16          |
| ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                            | 28          |
| ITEM 4. <u>CONTROLS AND PROCEDURES</u>   | 29          |
| <b>PART II</b>   |             |
| <b><u>OTHER INFORMATION</u></b>  |             |
| ITEM 1. <u>LEGAL PROCEEDINGS</u>   | 29          |
| ITEM 1A. <u>RISK FACTORS</u>   | 29          |
| ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>                           | 30          |
| ITEM 5. <u>OTHER INFORMATION</u>   | 31          |
| ITEM 6. <u>EXHIBITS</u>  | 32          |
| <u>SIGNATURES</u>  | 33          |

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****DAVE & BUSTER S ENTERTAINMENT, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

|  | <b>August 5,<br/>2018<br/>(unaudited)</b> | <b>February 4,<br/>2018<br/>(audited)</b> |
|--|---|---|
| <b>ASSETS</b>  |   |   |
| Current assets:  |   |   |
| Cash and cash equivalents  | \$ 22,398                                 | \$ 18,795                                 |
| Inventories  | 24,993                                    | 27,560                                    |
| Prepaid expenses   | 20,509                                    | 19,052                                    |
| Income taxes receivable  | 1,369                                     | 4,867                                     |
| Other current assets   | 33,175                                    | 24,633                                    |
| Total current assets   | 102,444                                   | 94,907                                    |
| Property and equipment (net of \$526,194 and \$474,330 accumulated depreciation as of August 5, 2018 and February 4, 2018, respectively) | 776,242                                   | 726,455                                   |
| Deferred tax assets  | 7,134                                     | 7,789                                     |
| Tradenames   | 79,000                                    | 79,000                                    |
| Goodwill   | 272,616                                   | 272,566                                   |
| Other assets and deferred charges  | 17,421                                    | 16,313                                    |
| Total assets   | \$ 1,254,857                              | \$ 1,197,030                              |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |   |   |
| Current liabilities:   |   |   |
| Current installments of long-term debt   | \$ 15,000                                 | \$ 15,000                                 |
| Accounts payable   | 48,563                                    | 54,627                                    |
| Accrued liabilities  | 145,889                                   | 135,161                                   |
| Income taxes payable   | 7,193                                     | 3,037                                     |
| Total current liabilities  | 216,645                                   | 207,825                                   |
| Deferred income taxes  | 15,066                                    | 10,213                                    |
| Deferred occupancy costs   | 213,235                                   | 184,994                                   |
| Other liabilities  | 22,127                                    | 21,103                                    |
| Long-term debt, net  | 346,859                                   | 351,249                                   |
| Commitments and contingencies  |   |   |
| Stockholders' equity:  |   |   |
|  | 429                                       | 427                                       |

Edgar Filing: Dave & Buster's Entertainment, Inc. - Form 10-Q

Common stock, par value \$0.01; authorized: 400,000,000 shares; issued: 42,937,988 shares at August 5, 2018 and 42,660,806 shares at February 4, 2018; outstanding: 39,027,955 shares at August 5, 2018 and 40,102,085 shares at February 4, 2018

|  |              |              |
|--|--------------|--------------|
| Preferred stock, 50,000,000 authorized; none issued  |              |              |
| Paid-in capital  | 325,951      | 320,488      |
| Treasury stock, 3,910,033 and 2,558,721 shares as of August 5, 2018 and February 4, 2018, respectively | (209,084)    | (147,331)    |
| Accumulated other comprehensive loss   | (611)        | (249)        |
| Retained earnings  | 324,240      | 248,311      |
| Total stockholders' equity   | 440,925      | 421,646      |
| Total liabilities and stockholders' equity   | \$ 1,254,857 | \$ 1,197,030 |

See accompanying notes to consolidated financial statements.

**Table of Contents****DAVE & BUSTER S ENTERTAINMENT, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

(in thousands, except share and per share amounts)

|  | <b>Thirteen Weeks<br/>Ended<br/>August 5, 2018</b> | <b>Thirteen Weeks<br/>Ended<br/>July 30, 2017</b> |
|--|--|---|
| Food and beverage revenues                                     | \$ 130,242   | \$ 118,689  |
| Amusement and other revenues                                   | 188,946  | 162,062   |
| <b>Total revenues</b>  | <b>319,188</b>                                     | <b>280,751</b>                                    |
| Cost of food and beverage                                      | 33,998   | 30,473  |
| Cost of amusement and other                                    | 21,558   | 17,978  |
| <b>Total cost of products</b>                                  | <b>55,556</b>                                      | <b>48,451</b>                                     |
| Operating payroll and benefits                                 | 73,736   | 64,453  |
| Other store operating expenses                                 | 94,825   | 82,529  |
| General and administrative expenses                            | 14,764   | 16,762  |
| Depreciation and amortization expense                          | 29,049   | 24,847  |
| Pre-opening costs  | 5,328  | 4,546   |
| <b>Total operating costs</b>                                   | <b>273,258</b>                                     | <b>241,588</b>                                    |
| <b>Operating income</b>  | <b>45,930</b>                                      | <b>39,163</b>                                     |
| Interest expense, net  | 3,228  | 2,063   |
| <b>Income before provision for income taxes</b>                | <b>42,702</b>                                      | <b>37,100</b>                                     |
| Provision for income taxes                                     | 8,923  | 6,744   |
| <b>Net income</b>  | <b>33,779</b>                                      | <b>30,356</b>                                     |
| Unrealized foreign currency translation gain (loss)            | (93)   | 720   |
| <b>Total comprehensive income</b>                              | <b>\$ 33,686</b>                                   | <b>\$ 31,076</b>                                  |
| <b>Net income per share:</b>                                   |  |   |
| Basic  | \$ 0.86  | \$ 0.73   |
| Diluted  | \$ 0.84  | \$ 0.71   |
| <b>Weighted average shares used in per share calculations:</b> |  |   |
| Basic  | 39,355,105   | 41,460,651  |
| Diluted  | 40,280,301   | 42,830,873  |

See accompanying notes to consolidated financial statements.





**Table of Contents****DAVE & BUSTER S ENTERTAINMENT, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

(in thousands, except share and per share amounts)

|  | <b>Twenty-Six Weeks<br/>Ended<br/>August 5, 2018</b> | <b>Twenty-Six Weeks<br/>Ended<br/>July 30, 2017</b> |
|--|--|---|
| Food and beverage revenues                                     | \$ 269,997   | \$ 248,500  |
| Amusement and other revenues                                   | 381,381  | 336,399   |
| <b>Total revenues</b>  | <b>651,378</b>                                       | <b>584,899</b>                                      |
| Cost of food and beverage                                      | 70,018   | 63,175  |
| Cost of amusement and other                                    | 42,677   | 34,261  |
| <b>Total cost of products</b>                                  | <b>112,695</b>                                       | <b>97,436</b>                                       |
| Operating payroll and benefits                                 | 146,630  | 129,643   |
| Other store operating expenses                                 | 188,165  | 164,897   |
| General and administrative expenses                            | 30,418   | 31,740  |
| Depreciation and amortization expense                          | 56,555   | 48,775  |
| Pre-opening costs  | 12,381   | 9,017   |
| <b>Total operating costs</b>                                   | <b>546,844</b>                                       | <b>481,508</b>                                      |
| <b>Operating income</b>  | <b>104,534</b>                                       | <b>103,391</b>                                      |
| Interest expense, net  | 6,085  | 3,917   |
| <b>Income before provision for income taxes</b>                | <b>98,449</b>  | <b>99,474</b>                                       |
| Provision for income taxes                                     | 22,520   | 26,322  |
| <b>Net income</b>  | <b>75,929</b>  | <b>73,152</b>                                       |
| Unrealized foreign currency translation gain (loss)            | (362)  | 428   |
| <b>Total comprehensive income</b>                              | <b>\$ 75,567</b>                                     | <b>\$ 73,580</b>                                    |
| <b>Net income per share:</b>                                   |  |   |
| Basic  | \$ 1.92  | \$ 1.75   |
| Diluted  | \$ 1.88  | \$ 1.69   |
| <b>Weighted average shares used in per share calculations:</b> |  |   |
| Basic  | 39,525,263   | 41,744,101  |
| Diluted  | 40,444,201   | 43,182,918  |

See accompanying notes to consolidated financial statements.



Table of Contents

**DAVE & BUSTER S ENTERTAINMENT, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

(in thousands, except share amounts)

|  | Common Stock |        | Paid-In    | Treasury Stock |              | Accumulated | Retained   | Total      |
|--|--------------|--------|------------|----------------|--------------|-------------|------------|------------|
|  | Shares       | Amt.   | Capital    | At Cost        | Amt.         | Other       | Earnings   |            |
|  |              |        |            |                |              | Loss        |            |            |
| <b>Balance</b>                                     |              |        |            |                |              |             |            |            |
| <b>February 4, 2018</b>                            |              |        |            |                |              |             |            |            |
| <b>(audited)</b>                                   | 42,660,806   | \$ 427 | \$ 320,488 | 2,558,721      | \$ (147,331) | \$ (249)    | \$ 248,311 | \$ 421,646 |
| Net income   |              |        |            |                |              |             | 75,929     | 75,929     |
| Unrealized foreign<br>currency translation<br>loss |              |        |            |                |              | (362)       |            | (362)      |
| Share-based<br>compensation                        |              |        | 4,014      |                |              |             |            | 4,014      |
| Issuance of<br>common stock                        | 277,182      | 2      | 1,449      |                |              |             |            | 1,451      |
| Repurchase of<br>common stock                      |              |        |            | 1,351,312      | (61,753)     |             |            | (61,753)   |
| <b>Balance August 5,</b>                           |              |        |            |                |              |             |            |            |
| <b>2018 (unaudited)</b>                            | 42,937,988   | \$ 429 | \$ 325,951 | 3,910,033      | \$ (209,084) | \$ (611)    | \$ 324,240 | \$ 440,925 |

See accompanying notes to consolidated financial statements.

Table of Contents

**DAVE & BUSTER S ENTERTAINMENT, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(in thousands)

|   | <b>Twenty-Six Weeks<br/>Ended<br/>August 5, 2018</b> | <b>Twenty-Six Weeks<br/>Ended<br/>July 30, 2017</b> |
|---|--|---|
| <b>Cash flows from operating activities:</b>                                      |  |   |
| Net income  | \$ 75,929  | \$ 73,152   |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |   |
| Depreciation and amortization expense   | 56,555   | 48,775  |
| Deferred taxes  | 5,508  | (3,070)   |
| Loss on disposal of fixed assets  | 693  | 884   |
| Share-based compensation  | 4,014  | 4,449   |
| Other, net  | 717  | 569   |
| Changes in assets and liabilities:  |  |   |
| Inventories   | 2,567  | (1,844)   |
| Prepaid expenses  | (1,457)  | (415)   |
| Income tax receivable   | 3,498  | 4,031   |
| Other current assets  | (8,536)  | (12,226)  |
| Other assets and deferred charges   | (939)  | (653)   |
| Accounts payable  | 2,766  | 5,480   |
| Accrued liabilities   | 10,566   | 13,470  |
| Income taxes payable  | 4,156  | 3,956   |
| Deferred occupancy costs  | 28,403   | 19,794  |
| Other liabilities   | 471  | 1,754   |
| Net cash provided by operating activities   | 184,911  | 158,106   |
| <b>Cash flows from investing activities:</b>                                      |  |   |
| Capital expenditures  | (116,624)  | (99,757)  |
| Proceeds from sales of property and equipment                                     | 118  | 37  |
| Collections of notes receivable   |  | 800   |
| Net cash used in investing activities   | (116,506)  | (98,920)  |
| <b>Cash flows from financing activities:</b>                                      |  |   |
| Proceeds from debt  | 117,000  | 95,000  |
| Payments of debt  | (121,500)  | (57,750)  |
| Proceeds from the exercise of stock options                                       | 1,451  | 721   |
| Proceeds from issuance of treasury stock  |  | 1,642   |
| Repurchase of common stock under share repurchase program                         | (61,080)   | (98,286)  |
|   | (673)  |   |

## Repurchases of common stock to satisfy employee withholding tax obligations

|  |            |            |
|--|------------|------------|
| Net cash used in financing activities              | (64,802)   | (58,673)   |
| Increase in cash and cash equivalents              | 3,603      | 513        |
| Beginning cash and cash equivalents                | 18,795     | 20,083     |
| Ending cash and cash equivalents                   | \$ 22,398  | \$ 20,596  |
| Supplemental disclosures of cash flow information: |            |            |
| Decrease in fixed asset accounts payable           | \$ (8,830) | \$ (5,455) |
| Cash paid for income taxes, net                    | \$ 9,338   | \$ 21,400  |
| Cash paid for interest, net                        | \$ 5,714   | \$ 3,396   |

See accompanying notes to consolidated financial statements.

---

**Table of Contents**

**DAVE & BUSTER S ENTERTAINMENT, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except share and per share amounts)**

**Note 1: Summary of Significant Accounting Policies**

**Basis of presentation** Dave & Buster s Entertainment, Inc. ( D&B Entertainment ) is a Delaware corporation formed in June 2010. References to the Company , we , us , and our refer to D&B Entertainment, any predecessor companies, and its wholly-owned subsidiaries, Dave & Buster s Holdings, Inc. ( D&B Holdings ), a holding company which owns 100% of the outstanding common stock of Dave & Buster s, Inc. ( D&B Inc ), the operating company. The Company, headquartered in Dallas, Texas, is a leading operator of high-volume entertainment and dining venues ( stores ) in North America for adults and families under the name Dave & Buster s . The Company operates its business as one operating and one reportable segment. As of August 5, 2018, we owned and operated 117 stores located in 38 states, Puerto Rico and one Canadian province.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company s financial statements have been prepared in accordance with generally accepted accounting principles ( GAAP ) in the United States for interim financial information as prescribed by the Securities and Exchange Commission ( SEC ). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. The preparation of consolidated financial statements in conformity with GAAP requires us to make certain estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the thirteen and twenty-six weeks ended August 5, 2018 are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending February 3, 2019. Our quarterly financial data should be read in conjunction with the audited financial statements and notes thereto for the year ended February 4, 2018, included in our Annual Report on Form 10-K as filed with the SEC.

We operate on a 52 or 53 week fiscal year that ends on the Sunday after the Saturday closest to January 31. Each quarterly period has 13 weeks, except in a 53 week year when the fourth quarter has 14 weeks. Fiscal 2018 and 2017, which end on February 3, 2019 and February 4, 2018, contain 52 and 53 weeks, respectively.

**Cash and cash equivalents** We consider transaction settlements in process from credit card companies and all highly liquid temporary investments with original maturities of three months or less to be cash equivalents. Our cash management system provides for the funding of all major bank disbursement accounts on a daily basis as checks are presented for payment. Under this system, outstanding checks are in excess of the cash balances at certain banks, which creates book overdrafts. Book overdrafts of \$5,351 and \$3,416 are presented in Accounts payable in the Consolidated Balance Sheets as of August 5, 2018 and February 4, 2018, respectively. Changes in the book overdraft position are presented within Net cash provided by operating activities within the Consolidated Statements of Cash Flows.

As of August 5, 2018, the Company had no restricted cash, and the adoption of Accounting Standards Update ( ASU ) 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, during the first quarter of fiscal 2018 did not have an impact on our consolidated financial statements. Additionally, the adoption of ASU 2016-15, Statement of Cash

Flows (Topic 230), did not have an impact on our consolidated financial statements.

**Other current assets** Other current assets includes construction allowance receivables of \$23,448 and \$14,941 as of August 5, 2018 and February 4, 2018, respectively, related to our new store openings. We consider the concentration of credit risk for tenant improvement allowance receivables from landlords to be minimal due to the payment histories and general financial condition of our landlords.

**Fair value of financial instruments** Fair value is defined as the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the accounting standards establish a three-level hierarchy for inputs used in measuring fair value as follows: Level One inputs are quoted prices available for identical assets and liabilities in active markets; Level Two inputs are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data; and Level Three inputs are less observable and reflect our own assumptions.

Our financial instruments consist of cash and cash equivalents, accounts and notes receivable, accounts payable, and our credit facility. The carrying amount of cash and cash equivalents, accounts and notes receivable and accounts payable approximates fair value because of their short maturities. We believe that the carrying amount of our credit facility approximates its fair value because the interest rates are adjusted regularly based on current market conditions. The fair value of the Company's credit facility was determined to be a Level Two instrument as defined by GAAP.

---

**Table of Contents**

Non-financial assets and liabilities recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis include such items as property and equipment, goodwill, tradenames and other assets. These assets are measured at fair value if determined to be impaired. During the thirteen weeks ended August 5, 2018, there were no impairments recognized.

**Revenue recognition** The Company adopted Revenue from Contracts with Customers (Topic 606) in the first quarter of fiscal 2018 using the modified retrospective method. Based on our evaluation of our revenue streams, the Company has determined that there was not a material impact as of the date of adoption between the new revenue standard and how we previously recognized revenue, and therefore, the adoption did not have a material effect on our consolidated financial statements, and there was no cumulative effect to our retained earnings.

Food and beverage revenues are recognized when payment is tendered at the point of sale. Amusement revenues are primarily recognized upon utilization of game play credits on Power Cards purchased and used by customers to activate most of the video and redemption games. We have recognized a liability for the estimated amount of unused game play credits which we believe our customers will utilize in the future based on credits remaining on Power Cards, historic utilization patterns and revenue per game play credit sold. Total deferred amusement revenue is included in *Accrued liabilities* in our Consolidated Balance Sheets. During the thirteen and twenty-six weeks ended August 5, 2018, we recognized revenue of approximately \$4,600 and \$14,600, respectively, related to the amount in deferred amusement revenue as of the end of fiscal 2017.

Proceeds from the sale of gift cards are deferred and recognized as revenue when the holder redeems the card or its likelihood of redemption becomes remote ( *breakage* ) and the Company determines that there is not a legal obligation to remit the unredeemed gift card balances to the relevant jurisdictions. The determination of the gift card breakage is based on the Company's specific historical redemption patterns. Recognized gift card breakage revenue is included in *Amusements and other revenues* in the Consolidated Statements of Comprehensive Income. Total deferred revenue related to our gift cards is included in *Accrued liabilities* in our Consolidated Balance Sheets. During the thirteen and twenty-six weeks ended August 5, 2018, we recognized revenue of approximately \$900 and \$2,700, respectively, related to the amount in deferred revenue as of the end of fiscal 2017, of which approximately \$130 and \$390 was gift card breakage revenue.

Certain of our promotional programs include multiple performance obligations that include both a delivered and undelivered component and are discounted from the standalone selling prices of the deliverables. We allocate the entire discount to the amusement deliverable. Revenues are presented net of sales taxes. Sales tax collected is included in *Accrued liabilities* until the taxes are remitted to the appropriate taxing authorities.

**Share repurchase program** Our Board of Directors has approved a share repurchase program, under which the Company may repurchase shares on the open market, through privately negotiated transactions, and through trading plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The share repurchase program may be modified, suspended or discontinued at any time. The Company has a total share repurchase authorization of \$300,000 which expires at the end of fiscal 2018. During the thirteen and twenty-six weeks ended August 5, 2018, the Company purchased 728,753 and 1,335,061 shares of common stock at an average cost of \$46.26 and \$45.75 per share, respectively. Since the inception of the repurchase program, the Company has purchased 4,538,433 shares of common stock at an average cost of \$53.28 per share. As of August 5, 2018, we have approximately \$58,182 of share repurchase authorization remaining under the current plan.

In our consolidated financial statements, the Company treats shares withheld for tax purposes on behalf of our employees in connection with the vesting of performance restricted stock units as common stock repurchases because they reduce the number of shares that would have been issued upon vesting. These withheld shares of common stock



are not considered common stock repurchases under our authorized common stock repurchase plan. During the twenty-six weeks ended August 5, 2018, we withheld 16,251 shares of common stock to satisfy \$673 of employees tax obligations.

***Recent accounting pronouncements*** In February 2016, the Financial Accounting Standards Board ( FASB ) issued ASU 2016-02, Leases (Topic 842). The new guidance requires the recognition of lease liabilities, representing future minimum lease payments, on a discounted basis, and corresponding right-of-use assets on a balance sheet for most leases, along with requirements for enhanced disclosures to give financial statement users the ability to assess the amount, timing and uncertainty of cash flows arising from leasing arrangements. In July 2018, the FASB issued an alternative method that permits application of the new guidance at the beginning of the year of adoption, recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, in addition to the method of applying the new guidance retrospectively to each prior reporting period presented. The guidance will be effective for us at the beginning of our first quarter of fiscal 2019, using the new transition method, with optional practical expedients. We are currently evaluating the impact of the updated guidance on our consolidated financial statements, and we

**Table of Contents**

expect the adoption of this guidance will likely have an insignificant impact on our Consolidated Statements of Comprehensive Income and will result in a material increase in the assets and liabilities on our Consolidated Balance Sheets. As of August 5, 2018, the Company had an estimated \$1,611,953 in undiscounted future minimum lease commitments. We are substantially complete with our preliminary assessment of the impact of the new standard on equipment leases and do not believe they will have a material impact on our consolidated financial statements. Additionally, we have reviewed most of our current facility leases and extracted the relevant data needed to apply the new guidance. We continue to evaluate the impact of the new standard on our facility leases. Recognition of a lease liability related to operating leases will not impact any covenants related to the Company's long-term debt because the debt agreements specify that covenant ratios be calculated using GAAP in effect at the time the debt agreements were entered into.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350), which eliminates the requirement to calculate the implied fair value of goodwill if the fair value of a reporting unit is less than the carrying amount of the reporting unit. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The guidance is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis. The Company does not expect the adoption will have a material impact on our consolidated financial statements when we perform future annual impairment tests.

**Note 2: Accrued Liabilities**

Accrued liabilities consist of the following as of:

|  | <b>August 5, 2018</b> | <b>February 4, 2018</b> |
|--|-----------------------|-------------------------|
| Deferred amusement revenue             | \$ 38,690             | \$ 33,806               |
| Compensation and benefits              | 22,914                | 19,959                  |
| Amusement redemption liability         | 19,932                | 18,041                  |
| Rent                                   | 18,471                | 16,478                  |
| Property taxes                         | 8,262                 | 6,054                   |
| Deferred gift card revenue             | 6,691                 | 7,583                   |
| Sales and use taxes                    | 4,756                 | 5,191                   |
| Current portion of long-term insurance | 4,600                 | 4,600                   |
| Utilities                              | 3,845                 | 3,554                   |
| Customer deposits                      | 3,813                 | 3,250                   |
| Inventory liabilities                  | 2,453                 | 4,336                   |
| Other (refer to Note 4)                | 11,462                | 12,309                  |
| <b>Total accrued liabilities</b>       | <b>\$ 145,889</b>     | <b>\$ 135,161</b>       |

**Note 3: Debt**

Long-term debt consists of the following as of:

| <b>August 5, 2018</b> | <b>February 4, 2018</b> |
|-----------------------|-------------------------|
|-----------------------|-------------------------|

Edgar Filing: Dave & Buster's Entertainment, Inc. - Form 10-Q

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Credit facility - term        | \$ 288,750        | \$ 296,250        |
| Credit facility - revolver    | 74,000            | 71,000            |
| <b>Total debt outstanding</b> | <b>362,750</b>    | <b>367,250</b>    |
| Less:                         |                   |                   |
| Current installments - term   | (15,000)          | (15,000)          |
| Debt issuance costs - term    | (891)             | (1,001)           |
| <b>Long-term debt, net</b>    | <b>\$ 346,859</b> | <b>\$ 351,249</b> |

**Table of Contents**

On August 17, 2017, we entered into a senior secured credit facility that provides a \$300,000 term loan facility and a \$500,000 revolving credit facility with a maturity date of August 17, 2022. The \$500,000 revolving credit facility includes a \$35,000 letter of credit sub-facility and a \$15,000 swing loan sub-facility. The revolving credit facility is available to provide financing for general purposes. Principal payments on the term loan facility are \$3,750 per quarter through maturity, when the remaining balance is due. Our current credit facility is secured by the assets of D&B Inc and is unconditionally guaranteed by D&B Holdings and each of its direct and indirect domestic wholly-owned subsidiaries. As of August 5, 2018, we had letters of credit outstanding of \$5,047 and \$420,953 of borrowing available under our credit facility.

The interest rates per annum applicable to loans, other than swing loans, under our existing credit facility are currently set based on a defined LIBOR rate plus an applicable margin. Swing loans bear interest at a base rate plus an applicable margin. The loans bear interest subject to a pricing grid based on a total leverage ratio, at LIBOR plus a spread ranging from 1.25% to 2.00% for the term loans and the revolving loans. The stated weighted average interest rate at August 5, 2018 was 3.33%. The year-to-date weighted average effective interest rate was 3.64%. The weighted average effective rate includes amortization of debt issuance costs, commitment and other fees.

Our credit facility contains restrictive covenants that, among other things, place certain limitations on our ability to: incur additional indebtedness, make loans or advances to subsidiaries and other entities, pay dividends, acquire other businesses or sell assets. In addition, our credit facility requires us to maintain certain financial ratio covenants. As of August 5, 2018, we were in compliance with our restrictive and financial ratio covenants.

**Interest expense, net** The following tables set forth our recorded interest expense, net for the periods indicated:

|   | <b>Thirteen Weeks<br/>Ended<br/>August 5,<br/>2018</b> | <b>Thirteen Weeks<br/>Ended<br/>July 30,<br/>2017</b> |
|---|--|---|
| Interest expense on credit facilities     | \$ 3,255   | \$ 1,998  |
| Amortization of issuance cost             | 198  | 166   |
| Interest income                           | (28)   | (52)  |
| Capitalized interest                      | (201)  | (115)   |
| Change in fair value of interest rate cap | 4  | 66  |
| Total interest expense, net               | \$ 3,228   | \$ 2,063  |

|   | <b>Twenty-six Weeks<br/>Ended<br/>August 5,<br/>2018</b> | <b>Twenty-six Weeks<br/>Ended<br/>July 30, 2017</b> |
|---|--|---|
| Interest expense on credit facility       | \$ 6,278   | \$ 3,706  |
| Amortization of issuance cost             | 396  | 333   |
| Interest income                           | (56)   | (135)   |
| Capitalized interest                      | (527)  | (256)   |
| Change in fair value of interest rate cap | (6)  | 269   |

|                             |    |       |    |       |
|-----------------------------|----|-------|----|-------|
| Total interest expense, net | \$ | 6,085 | \$ | 3,917 |
|-----------------------------|----|-------|----|-------|

**Note 4: Commitments and Contingencies**

We are subject to certain legal proceedings and claims that arise in the ordinary course of our business, including claims alleging violations of federal and state law regarding workplace and employment matters, discrimination and similar matters. In the opinion of management, based upon consultation with legal counsel, the amount of ultimate liability with respect to such legal proceedings and claims will not materially affect the consolidated results of our operations or our financial condition.

On June 30, 2017, we agreed to settle litigation related to alleged violations of the Employee Retirement Income Security Act. The settlement agreement is subject to court approval. To cover the estimated net costs of settlement, including estimated payment to any opt-in members and class attorneys, as well as related settlement administration costs, we recorded a net charge of \$2,550 (representing \$7,500 of gross settlement costs less \$4,950 of insurance recoveries) during the thirteen-week period ended July 30, 2017. The charge was recorded in general and administrative expenses in our Consolidated Statements of Comprehensive Income. No additional settlement liabilities or recoveries related to this litigation were recorded in the twenty-six week period ended August 5, 2018. The actual amount of any settlement payment could vary from our estimate and will be subject to many factors including approval by the court, the claims process and other matters typically associated with the settlement of litigation.

During the third quarter of fiscal 2017, three major hurricanes made landfall impacting areas where we operate our stores, which negatively impacted store revenues. During the first quarter of fiscal 2018, we recognized business interruption insurance recoveries of approximately \$500 related to one of the events, which are included in Other store operating expenses in the Consolidated Statements of Comprehensive Income. We continue to work closely with our insurers to finalize all property and business interruption insurance claims, although the amount of any future recoveries has not yet been determined.

**Table of Contents**

We lease certain property and equipment under various non-cancelable operating leases. Some of the leases include options for renewal or extension on various terms. Most of the leases require us to pay property taxes, insurance and maintenance of the leased assets. Certain leases also have provisions for additional contingent rentals based on revenues.

The following table sets forth our lease commitments as of August 5, 2018:

|                              |                     |
|------------------------------|---------------------|
| 1 year or less               | \$ 113,655          |
| 2 years                      | 109,973             |
| 3 years                      | 104,562             |
| 4 years                      | 96,363              |
| 5 years                      | 92,205              |
| Thereafter                   | 1,095,195           |
| <b>Total future payments</b> | <b>\$ 1,611,953</b> |

As of August 5, 2018, we have signed operating lease agreements for five future sites which are expected to open in fiscal 2018 and early fiscal 2019. The landlord has fulfilled the obligations to commit us to the lease terms under these agreements and therefore, the future obligations related to these locations are included in the table above.

As of August 5, 2018, we have signed seventeen additional operating lease agreements for future sites. Our commitments under these agreements are contingent upon, among other things, the landlord's delivery of access to the premises for construction. Future obligations related to these agreements are not included in the table above.

**Note 5: Income Taxes**

The effective income tax rate for the twenty-six weeks ended August 5, 2018 was 22.9%, compared to 26.5% for the twenty-six weeks ended July 30, 2017. This decrease in the effective tax rate primarily reflects a favorable impact from the Tax Cuts and Jobs Act (the Tax Act) enacted on December 22, 2017. The rate reduction from the Tax Act was partially offset by lower excess tax benefits related to share-based compensation, higher non-US tax rates and other tax adjustments.

We believe we have properly estimated our federal and state income tax liabilities for the impacts of the Tax Act, and our accounting for the income tax effects of the Tax Act related to the deferred tax rate change and the effects on executive compensation has been completed. We continue to evaluate the impact of the Tax Act on the provisional amounts related to the utilization of bonus depreciation. However, given the amount and complexity of the changes in tax law resulting from the Tax Act, including technical amendments and interpretations of regulations by the Department of Treasury and Internal Revenue Service, we continue to analyze the effects of the Tax Act on our income tax provision. We may make further refinements to our calculations considering technical guidance that may be published and will record those adjustments in the period the guidance is issued. As of August 5, 2018, we have not changed the provisional estimates recognized in fiscal 2017.

**Table of Contents****Note 6: Earnings per share**

Potential dilutive shares consist of the incremental common shares issuable upon the exercise of outstanding stock options (both vested and unvested), unvested time-based restricted stock units (RSU s) and unvested performance RSU s to the extent performance measures were attained as of the end of the reporting period, calculated using the treasury-stock method. Potential dilutive shares are excluded from the computation of earnings per share ( EPS ) if their effect is anti-dilutive. Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and, accordingly, are excluded from the calculation. The weighted average anti-dilutive options excluded from the calculation of common equivalent shares were 90,143 and 99,331 in the thirteen and twenty-six weeks ended August 5, 2018.

The following table sets forth the computation of EPS, basic and diluted for the periods indicated:

|  | <b>Thirteen Weeks<br/>Ended<br/>August 5,<br/>2018</b> | <b>Thirteen Weeks<br/>Ended<br/>July 30, 2017</b> |
|--|--|---|
| <b>Numerator:</b>  |  |   |
| Net income   | \$ 33,779  | \$ 30,356   |
| <b>Denominator:</b>  |  |   |
| Weighted average number of common shares outstanding (basic)                         | 39,355,105   | 41,460,651  |
| Weighted average dilutive impact of equity-based awards                              | 925,196  | 1,370,222   |
| Weighted average number of common and common equivalent shares outstanding (diluted) | 40,280,301   | 42,830,873  |
| <b>Net income per share:</b>   |  |   |
| Basic  | \$ 0.86  | \$ 0.73   |
| Diluted  | \$ 0.84  | \$ 0.71   |

|  | <b>Twenty-six Weeks<br/>Ended<br/>August 5, 2018</b> | <b>Twenty-six Weeks<br/>Ended<br/>July 30, 2017</b> |
|--|--|---|
| <b>Numerator:</b>  |  |   |
| Net income   | \$ 75,929  | \$ 73,152   |
| <b>Denominator:</b>  |  |   |
| Weighted average number of common shares outstanding (basic)                         | 39,525,263   | 41,744,101  |
| Weighted average dilutive impact of equity-based awards                              | 918,938  | 1,438,817   |
| Weighted average number of common and common equivalent shares outstanding (diluted) | 40,444,201   | 43,182,918  |
| <b>Net income per share:</b>   |  |   |

Edgar Filing: Dave & Buster's Entertainment, Inc. - Form 10-Q

|         |    |      |    |      |
|---------|----|------|----|------|
| Basic   | \$ | 1.92 | \$ | 1.75 |
| Diluted | \$ | 1.88 | \$ | 1.69 |



**Table of Contents****Note 7: Share-Based Compensation**

Compensation expense related to stock options, time-based and performance-based RSUs and restricted stock are included in general and administrative expenses and were as follows:

|   | <b>Thirteen Weeks Ended</b> |                      | <b>Twenty-six Weeks Ended</b> |                      |
|---|-----------------------------|----------------------|-------------------------------|----------------------|
|   | <b>August 5, 2018</b>       | <b>July 30, 2017</b> | <b>August 5, 2018</b>         | <b>July 30, 2017</b> |
| Stock options                                 | \$ 660                      | 1,352                | \$ 2,018                      | 2,656                |
| RSUs and restricted stock                     | 966                         | 1,034                | 1,996                         | 1,793                |
| <b>Total share-based compensation expense</b> | <b>\$ 1,626</b>             | <b>\$ 2,386</b>      | <b>\$ 4,014</b>               | <b>\$ 4,449</b>      |

Transactions related to stock option awards during the twenty-six weeks ended August 5, 2018 were as follows:

|                                      | <b>2014 Stock Incentive Plan</b> |  | <b>2010 Stock Incentive Plan</b> |  |
|--------------------------------------|----------------------------------|--|----------------------------------|--|
|                                      | <b>Number of Options</b>         | <b>Weighted Average Exercise Price</b> | <b>Number of Options</b>         | <b>Weighted Average Exercise Price</b> |
| Outstanding at February 4, 2018      | 1,001,403                        | \$ 32.55                               | 709,979                          | \$ 5.88                                |
| Granted                              | 205,646                          | 41.65                                  |                                  |  |
| Exercised                            | (18,523)                         | 34.28                                  | (143,097)                        | 5.71                                   |
| Forfeited                            | (7,482)                          | 51.28                                  | (4,498)                          | 9.34                                   |
| <b>Outstanding at August 5, 2018</b> | <b>1,181,044</b>                 | <b>\$ 33.99</b>                        | <b>562,384</b>                   | <b>\$ 5.89</b>                         |
| Exercisable at August 5, 2018        | 585,814                          | \$ 31.11                               | 548,354                          | \$ 5.80                                |

The total intrinsic value of options exercised during the twenty-six weeks ended August 5, 2018 was \$7,061. The unrecognized expense related to our stock option plan totaled approximately \$2,869 as of August 5, 2018 and will be expensed over a weighted average period of 1.7 years.

Transactions related to time-based and performance-based RSUs and restricted stock during the twenty-six weeks ended August 5, 2018 were as follows:

|                                      | <b>Shares</b> | <b>Weighted Average Fair Value</b> |
|--------------------------------------|---------------|------------------------------------|
| Outstanding at February 4, 2018      | 184,541       | \$ 44.96                           |
| Granted                              | 107,657       | 45.76                              |
| Change in units based on performance | 50,452        | 31.72                              |
| Vested                               | (115,562)     | 35.26                              |

Edgar Filing: Dave & Buster's Entertainment, Inc. - Form 10-Q

|                               |         |          |
|-------------------------------|---------|----------|
| Forfeited                     | (8,725) | 45.69    |
| Outstanding at August 5, 2018 | 218,363 | \$ 47.55 |

**Table of Contents**

Fair value of our time-based and performance-based RSU s and restricted stock is based on our closing stock price on the date of grant. The unrecognized expense related to our time-based and performance-based RSU s and unvested restricted stock was \$7,381 as of August 5, 2018 and will be expensed over a weighted average period of 2.4 years.

During the twenty-six weeks ended August 5, 2018 and July 30, 2017, excess tax benefits of \$1,919 and \$10,134, respectively, were recognized as a benefit in the Provision for income taxes in the Consolidated Statement of Comprehensive Income and classified as a source in operating activities in the Consolidated Statement of Cash Flows.

Forfeitures are estimated at the time of grant and adjusted if necessary, in subsequent periods if actual forfeitures differ from those estimates. The forfeiture rate is based on historical experience.

**Note 8: Subsequent Events**

On September 11, 2018, the Company s Board of Director declared a quarterly cash dividend of \$0.15 per share on each of its outstanding common shares, such dividend to be paid on October 10, 2018, to shareholders of record on September 25, 2018.

On September 11, 2018, our Board of Directors approved an extension of our share repurchase program through the end of fiscal 2020 and approved an additional \$100,000 in common shares repurchases, increasing the total share repurchase authorization to \$400,000.

**Table of Contents**

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

The following discussion and analysis of our financial condition and results of operations should be read together with the accompanying unaudited consolidated financial statements and the related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC) on April 3, 2018. Unless otherwise specified, the meanings of all defined terms in Management's Discussion and Analysis of Financial Condition and Results of Operations are consistent with the meanings of such terms as defined in the Notes to Unaudited Consolidated Financial Statements. This discussion contains statements that are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements can be identified by the use of forward-looking terminology, including the terms believes, estimates, anticipates, expects, intends, may, will or should or, in each case, their negative variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this quarterly report as a result of various factors, including those set forth in the section entitled Risk Factors in our Annual Report on Form 10-K filed with the SEC on April 3, 2018. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this Form 10-Q, those results or developments may not be indicative of results or developments in subsequent periods.

**General**

We are a leading owner and operator of high-volume venues in North America that combine dining and entertainment for both adults and families under the name Dave & Buster's. Founded in 1982, the core of our concept is to offer our customers the opportunity to Eat, Drink, Play and Watch all in one location. Eat and Drink are offered through a full menu of entrées and appetizers and a full selection of non-alcoholic and alcoholic beverages. Our Play and Watch offerings provide an extensive assortment of entertainment attractions centered around playing games and watching live sports and other televised events. Our customer mix skews moderately to males, primarily between the ages of 21 and 39, and we believe we also serve as an attractive venue for families with children and teenagers. We believe we appeal to a diverse customer base by providing a highly customizable experience in a dynamic and fun setting.

Our stores average 42,000 square feet, range in size between 16,000 and 66,000 square feet and are open seven days a week, with hours of operation typically from 11:30 a.m. to midnight on Sunday through Thursday and 11:30 a.m. to 2:00 a.m. on Friday and Saturday.

**Our Growth Strategies and Outlook**

Our growth is based primarily on the following strategies:

Build great new stores;

Drive our comparable stores sales; and

Expand the Dave & Buster's brand internationally.

We intend for new store expansion to be a key growth driver. Our long-term plan is to open new stores at an annual rate of at least 10% of our existing stores. During the first twenty-six weeks of fiscal 2018, the Company opened eleven new stores, compared to eight new store openings in the comparable 2017 period. As of August 5, 2018, there were 117 stores in the United States, Puerto Rico and Canada. We strive to increase comparable store sales by delivering compelling game content in our amusement products, enhancing food and beverage items and improving service to our customers. We utilize national cable advertising and digital media to build customer awareness and drive frequency across each of the Eat, Drink, Play and Watch components of our business. We currently anticipate opening fourteen to fifteen new stores in fiscal 2018.

## **Table of Contents**

We believe that we are well positioned for growth with a corporate infrastructure and national marketing platform that can support a larger store base than we currently have, and that we will benefit from economies of scale as we expand.

For further information about our growth strategies and outlook, see the section entitled **Business** **Our Growth Strategies** in our Annual Report on Form 10-K filed with the SEC.

## **Key Measures of Our Performance**

We monitor and analyze a number of key performance measures to manage our business and evaluate financial and operating performance. These measures include:

**Comparable store sales.** Comparable store sales are a year-over-year comparison of sales at stores open at the end of the period which have been open for at least 18 months as of the beginning of each of the fiscal years. It is a key performance indicator used within the industry and is indicative of acceptance of our initiatives as well as local economic and consumer trends. Our comparable store base consisted of 86 stores as of August 5, 2018.

**New store openings.** Our ability to expand our business and reach new customers is influenced by the opening of additional stores in both new and existing markets. The success of our new stores is indicative of our brand appeal and the efficacy of our site selection and operating models. Between July 30, 2017 and August 5, 2018, we opened seventeen new stores, eight of which were in new markets.

## **Non-GAAP Financial Measures**

In addition to the results provided in accordance with generally accepted accounting principles ( GAAP ), we provide non-GAAP measures which present operating results on an adjusted basis. These are supplemental measures of performance that are not required by or presented in accordance with GAAP and include Adjusted EBITDA, Adjusted EBITDA Margin, Store Operating Income Before Depreciation and Amortization and Store Operating Income Before Depreciation and Amortization Margin (defined below). These non-GAAP measures do not represent and should not be considered as an alternative to net income or cash flows from operations, as determined in accordance with GAAP, and our calculations thereof may not be comparable to similarly entitled measures reported by other companies and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Although we use these non-GAAP measures to assess the operating performance of our business, they have significant limitations as an analytical tool because they exclude certain material costs. For example, Adjusted EBITDA does not take into account a number of significant items, including our interest expense and depreciation and amortization expense. In addition, Adjusted EBITDA excludes pre-opening and other costs which may be important in analyzing our GAAP results. Because Adjusted EBITDA does not account for these expenses, its utility as a measure of our operating performance has material limitations. Our calculations of Adjusted EBITDA adjust for these amounts because they vary from period to period and do not directly relate to the ongoing operations of the currently underlying business of our stores and therefore complicate comparison of underlying business between periods. Nevertheless, because of the limitations described above, management does not view Adjusted EBITDA or Store Operating Income Before Depreciation and Amortization in isolation and also uses other measures, such as revenues, gross margin, operating income and net income, to measure operating performance.

**Adjusted EBITDA and Adjusted EBITDA Margin.** We define Adjusted EBITDA as net income plus interest expense, net, loss on debt refinancing, provision for income taxes, depreciation and amortization expense, loss on asset disposal, share-based compensation, pre-opening costs, currency transaction (gains) losses and other costs.

Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by total revenues.

Adjusted EBITDA is presented because we believe that it provides useful information to investors and analysts regarding our operating performance. By reporting Adjusted EBITDA, we provide a basis for comparison of our business operations between current, past and future periods by excluding items that we do not believe are indicative of our core operating performance.

***Store Operating Income Before Depreciation and Amortization and Store Operating Income Before Depreciation and Amortization Margin.*** We define *Store Operating Income Before Depreciation and Amortization* as operating income plus depreciation and amortization expense, general and administrative expenses and pre-opening costs. *Store Operating Income Before Depreciation and Amortization Margin* is defined as *Store Operating Income Before Depreciation and Amortization* divided by total revenues. *Store Operating Income Before Depreciation and Amortization Margin* allows us to evaluate operating performance of each store across stores of varying size and volume.

We believe that *Store Operating Income Before Depreciation and Amortization* is another useful measure in evaluating our operating performance because it removes the impact of general and administrative expenses, which are not incurred at the store-level, and the costs of opening new stores, which are non-recurring at the store-level, and thereby enables the comparability of the operating

## **Table of Contents**

performance of our stores for the periods presented. We also believe that Store Operating Income Before Depreciation and Amortization is a useful measure in evaluating our operating performance within the entertainment and dining industry because it permits the evaluation of store-level productivity, efficiency and performance, and we use Store Operating Income Before Depreciation and Amortization as a means of evaluating store financial performance compared with our competitors. However, because this measure excludes significant items such as general and administrative expenses and pre-opening costs, as well as our interest expense, net and depreciation and amortization expense, which are important in evaluating our consolidated financial performance from period to period, the value of this measure is limited as a measure of our consolidated financial performance.

## **Presentation of Operating Results**

We operate on a 52 or 53 week fiscal year that ends on the Sunday after the Saturday closest to January 31. Each quarterly period has 13 weeks, except in a 53 week year when the fourth quarter has 14 weeks. All references to the second quarter of 2018 relate to the 13 week period ended August 5, 2018. All references to the second quarter of 2017 relate to the 13 week period ended July 30, 2017. Fiscal 2018 and fiscal 2017 consist of 52 and 53 weeks, respectively. All dollar amounts are presented in thousands, unless otherwise noted, except share and per share amounts.

## **Liquidity and Cash Flows**

The primary source of cash flow is from our operating activities and availability under the revolving credit facility.

## **Store-Level Variability, Quarterly Fluctuations, Seasonality and Inflation**

We have historically operated stores varying in size and have experienced significant variability among stores in volumes, operating results and net investment costs.

Our new stores typically open with sales volumes in excess of their expected long term run-rate levels, which we refer to as a honeymoon effect. We expect our new store sales volumes in year two to be 10% to 20% lower than our year one targets, and to grow in line with the rest of our comparable store base thereafter. As a result of the substantial revenues associated with each new store, the number and timing of new store openings will result in significant fluctuations in quarterly results.

In the first year of operation new store operating margins (excluding pre-opening expenses) typically benefit from honeymoon sales leverage on occupancy, management labor and other fixed costs. This benefit is partially offset by normal inefficiencies in hourly labor and other costs associated with establishing a new store. In year two, operating margins may decline due to the loss of honeymoon sales leverage on fixed costs which is partially offset by improvements in store operating efficiency. Furthermore, rents in our new stores are typically higher than our comparable store base.

Our operating results fluctuate from quarter to quarter as a result of seasonal factors. Typically, we have higher first and fourth quarter revenues associated with the spring and year-end holidays. These quarters will continue to be susceptible to the impact of severe or unseasonably mild weather on customer traffic and sales during that period. Our third quarter, which encompasses the back-to-school fall season, has historically had lower revenues as compared to the other quarters.

We expect that economic and environmental conditions and changes in regulatory legislation will continue to exert pressure on both supplier pricing and consumer spending related to entertainment and dining alternatives. Although



there is no assurance that our cost of products will remain stable or that federal, state or local minimum wage rates will not increase beyond amounts currently legislated, the effects of any supplier price increases or wage rate increases are expected to be partially offset by selected menu price increases where competitively appropriate.

**Table of Contents****Thirteen Weeks Ended August 5, 2018 Compared to Thirteen Weeks Ended July 30, 2017**

**Results of operations.** The following table sets forth selected data, in thousands of dollars and as a percentage of total revenues (unless otherwise noted) for the periods indicated. All information is derived from the accompanying unaudited consolidated statements of comprehensive income.

|   | <b>Thirteen Weeks<br/>Ended<br/>August 5, 2018</b> |              | <b>Thirteen Weeks<br/>Ended<br/>July 30, 2017</b> |              |
|---|--|--------------|---|--------------|
| Food and beverage revenues  | \$ 130,242   | 40.8%        | \$ 118,689  | 42.3%        |
| Amusement and other revenues  | 188,946  | 59.2         | 162,062   | 57.7         |
| <b>Total revenues</b>   | <b>319,188</b>                                     | <b>100.0</b> | <b>280,751</b>                                    | <b>100.0</b> |
| Cost of food and beverage (as a percentage of food and beverage revenues)     | 33,998   | 26.1         | 30,473  | 25.7         |
| Cost of amusement and other (as a percentage of amusement and other revenues) | 21,558   | 11.4         | 17,978  | 11.1         |
| Total cost of products  | 55,556   | 17.4         | 48,451  | 17.3         |
| Operating payroll and benefits  | 73,736   | 23.1         | 64,453  | 23.0         |
| Other store operating expenses  | 94,825   | 29.7         | 82,529  | 29.3         |
| General and administrative expenses   | 14,764   | 4.6          | 16,762  | 6.0          |
| Depreciation and amortization expense   | 29,049   | 9.1          | 24,847  | 8.9          |
| Pre-opening costs   | 5,328  | 1.7          | 4,546   | 1.6          |
| <b>Total operating costs</b>  | <b>273,258</b>                                     | <b>85.6</b>  | <b>241,588</b>                                    | <b>86.1</b>  |
| <b>Operating income</b>   | <b>45,930</b>                                      | <b>14.4</b>  | <b>39,163</b>                                     | <b>13.9</b>  |
| Interest expense, net   | 3,228  | 1.0          | 2,063   | 0.7          |
| <b>Income before provision for income taxes</b>                               | <b>42,702</b>                                      | <b>13.4</b>  | <b>37,100</b>                                     | <b>13.2</b>  |
| Provision for income taxes  | 8,923  | 2.8          | 6,744   | 2.4          |
| <b>Net income</b>   | <b>\$ 33,779</b>                                   | <b>10.6%</b> | <b>\$ 30,356</b>                                  | <b>10.8%</b> |
| Change in comparable store sales (1)  |  | (2.4)%       |   | 1.1%         |
| Company-owned stores open at end of period                                    |  | 117          |   | 100          |
| Comparable stores open at end of period                                       |  | 86           |   | 76           |

- (1) The change in comparable store sales in fiscal 2018 has been calculated by shifting forward our 2017 fiscal year comparable store sales results by one week, to account for the fact that our 2017 fiscal year consisted of 53 weeks.



**Table of Contents****Reconciliations of Non-GAAP Financial Measures****Adjusted EBITDA**

The following table reconciles (in dollars and as a percent of total revenues) Net income to Adjusted EBITDA for the periods indicated:

|                                       | <b>Thirteen Weeks<br/>Ended<br/>August 5, 2018</b> |              | <b>Thirteen Weeks<br/>Ended<br/>July 30, 2017</b> |              |
|---------------------------------------|--|--------------|---|--------------|
| Net income                            | \$ 33,779  | 10.6%        | \$ 30,356   | 10.8%        |
| Interest expense, net                 | 3,228  |              | 2,063   |              |
| Provision for income taxes            | 8,923  |              | 6,744   |              |
| Depreciation and amortization expense | 29,049   |              | 24,847  |              |
| <b>EBITDA</b>                         | <b>74,979</b>                                      | <b>23.5%</b> | <b>64,010</b>                                     | <b>22.8%</b> |
| Loss on asset disposal                | 431  |              | 239   |              |
| Share-based compensation              | 1,626  |              | 2,386   |              |
| Pre-opening costs                     | 5,328  |              | 4,546   |              |
| Other costs (1)                       | 26   |              | (607)   |              |
| <b>Adjusted EBITDA</b>                | <b>\$ 82,390</b>                                   | <b>25.8%</b> | <b>\$ 70,574</b>                                  | <b>25.1%</b> |

(1) Primarily represents costs related to currency transaction (gains) or losses.

**Store Operating Income Before Depreciation and Amortization**

The following table reconciles (in dollars and as a percent of total revenues) Operating income to Store Operating Income Before Depreciation and Amortization for the periods indicated:

|  | <b>Thirteen Weeks<br/>Ended<br/>August 5, 2018</b> |              | <b>Thirteen Weeks<br/>Ended<br/>July 30, 2017</b> |              |
|--|--|--------------|---|--------------|
| Operating income   | \$ 45,930  | 14.4%        | \$ 39,163   | 13.9%        |
| General and administrative expenses                                    | 14,764   |              | 16,762  |              |
| Depreciation and amortization expense                                  | 29,049   |              | 24,847  |              |
| Pre-opening costs  | 5,328  |              | 4,546   |              |
| <b>Store Operating Income Before Depreciation and<br/>Amortization</b> | <b>\$ 95,071</b>                                   | <b>29.8%</b> | <b>\$ 85,318</b>                                  | <b>30.4%</b> |



**Table of Contents****Capital Additions**

The following table represents total accrual-based additions to property and equipment. Total capital additions do not include any reductions for accrual-based tenant improvement allowances or proceeds from sale-leaseback transactions (collectively, Payments from landlords ).

|                                     | <b>Thirteen Weeks<br/>Ended<br/>August 5,<br/>2018</b> | <b>Thirteen Weeks<br/>Ended<br/>July 30, 2017</b> |
|-------------------------------------|--|---|
| New store and operating initiatives | \$ 30,256  | \$ 42,464   |
| Games                               | 11,171   | 5,335   |
| Maintenance capital                 | 7,431  | 3,179   |
| Total capital additions             | \$ 48,858  | \$ 50,978   |
| Payments from landlords             | \$ 15,758  | \$ 11,392   |

**Results of Operations****Revenues**

Total revenues increased \$38,437, or 13.7%, to \$319,188 in the second quarter of fiscal 2018 compared to total revenues of \$280,751 in the second quarter of fiscal 2017. For the thirteen weeks ended August 5, 2018, we derived 28.8% of our total revenue from food sales, 12.0% from beverage sales, 58.5% from amusement sales and 0.7% from other sources. For the thirteen weeks ended July 30, 2017, we derived 29.4% of our total revenue from food sales, 12.9% from beverage sales, 56.9% from amusement sales and 0.8% from other sources.

As a result of the 53 week year in fiscal 2017, our 2018 fiscal year began one week later than our 2017 fiscal year. The comparable store revenue discussion presented below has been prepared by shifting forward our 2017 fiscal year results by one week, in order to provide more useful information to users to better analyze our business. We have estimated that the one week shift would result in total revenues for the comparable 2017 period being \$5,693 higher than the total revenues reported in the thirteen week period ended July 30, 2017. We have estimated that 2017 comparable store sales would be \$4,416 higher and that 2017 non-comparable stores and other sales would have been \$1,277 higher.

The net increase in revenues for the second quarter of fiscal 2018 compared to the reported second quarter of 2017 were from the following sources:

|  |            |
|--|------------|
| Comparable stores  | \$ (5,900) |
| Comparable stores shift in week impact                               | 4,416      |
| Non-comparable stores  | 39,348     |
| Non-comparable stores shift in week impact                           | 1,269      |
| Other (including an increase of \$8 due to the shift in week impact) | (696)      |

Total

\$ 38,437

Comparable store revenue decreased \$5,900, or 2.4%, in the second quarter of fiscal 2018 compared to the comparable thirteen weeks of fiscal 2017. Comparable store revenue compared to prior year was, in part, negatively impacted by increased competitive pressure and sales transfers to new stores that we opened in markets where we operate. Comparable walk-in revenues, which accounted for 90.3% of comparable store revenue for the second quarter of fiscal 2018, decreased \$5,920, or 2.6% compared to the similar period in fiscal 2017. Comparable store special events revenues, which accounted for 9.7% of comparable store revenue for the second quarter of fiscal 2018, increased \$20, or 0.1% compared to the comparable period in fiscal 2017.

Food sales at comparable stores decreased by \$2,370, or 3.3%, to \$69,334 in the second quarter of fiscal 2018 from \$71,704 in the comparable period in fiscal 2017. Beverage sales at comparable stores decreased by \$1,826, or 5.9%, to \$29,207 in the second quarter of fiscal 2018 from \$31,033 in the 2017 comparison period. The decrease in food and beverage unit sales at comparable stores was partially offset by an overall increase in menu prices. Comparable store amusement and other revenues in the second quarter of fiscal 2018 decreased by \$1,704, or 1.2%, to \$143,337 from \$145,041 in the comparable 13 weeks of fiscal 2017. The decrease in amusements sales was primarily driven by a decrease in the number of Power Cards sold.

## **Table of Contents**

Non-comparable store revenue increased \$40,617, for the second quarter of fiscal 2018 compared to the second quarter of fiscal 2017. The increase in non-comparable store revenue was primarily driven by 207 additional operating store weeks contributed by our thirty-one non-comparable stores, seventeen of which opened subsequent to the second quarter of fiscal 2017.

### ***Cost of products***

The total cost of products was \$55,556 for the second quarter of fiscal 2018 and \$48,451 for the second quarter of fiscal 2017. The total cost of products as a percentage of total revenues was 17.4% and 17.3% for the second quarter of fiscal 2018 and fiscal 2017, respectively.

Cost of food and beverage products increased to \$33,998 in the second quarter of fiscal 2018 compared to \$30,473 for the second quarter of fiscal 2017 due primarily to the increased sales volume related to new store openings. Cost of food and beverage products, as a percentage of food and beverage revenues, increased 40 basis points to 26.1% for the second quarter of fiscal 2018 from 25.7% for the second quarter of fiscal 2017. Higher meat costs resulting from our upgraded burger product, and higher commodity costs in our poultry and potato items coupled with the impact of our larger non-comparable store group, were partially offset by increases in food and beverage prices.

Cost of amusement and other increased to \$21,558 in the second quarter of fiscal 2018 compared to \$17,978 in the second quarter of fiscal 2017. The costs of amusement and other, as a percentage of amusement and other revenues, increased 30 basis points to 11.4% for the second quarter of fiscal 2018 from 11.1% for the second quarter of fiscal 2017. The increase in cost of amusement and other as a percentage of revenue was due, in part, to higher expense associated with our provision for estimated redemption ticket liabilities and higher amusement supply costs, partially offset by a slight shift in game play to non-redemption games including our new proprietary virtual reality platform which launched in the second quarter of fiscal 2018.

### ***Operating payroll and benefits***

Total operating payroll and benefits increased by \$9,283, or 14.4%, to \$73,736 in the second quarter of fiscal 2018 compared to \$64,453 in the second quarter of fiscal 2017. This increase was primarily due to labor associated with the additional operating store weeks of our non-comparable stores. The total cost of operating payroll and benefits, as a percentage of total revenues, increased 10 basis points to 23.1% in the second quarter of fiscal 2018 compared to 23.0% for the second quarter of fiscal 2017.

### ***Other store operating expenses***

Other store operating expenses increased by \$12,296, or 14.9%, to \$94,825 in the second quarter of fiscal 2018 compared to \$82,529 in the second quarter of fiscal 2017, primarily due to new store openings. Other store operating expenses as a percentage of total revenues increased 40 basis points to 29.7% in the second quarter of fiscal 2018 compared to 29.3% in the second quarter of fiscal 2017. This increase was due primarily to increased occupancy costs associated with our non-comparable stores and unfavorable leverage of our occupancy costs on decreased comparable store sales. These cost increases were partially offset by lower renovation and repair costs.

### ***General and administrative expenses***

General and administrative expenses decreased by \$1,998, or 11.9%, to \$14,764 in the second quarter of fiscal 2018 compared to \$16,762 in the second quarter of fiscal 2017. The decrease in general and administrative expenses was primarily driven by a \$2,550 charge for litigation settlement costs recorded in the second quarter of fiscal 2017 and



lower incremental compensation costs related to our share-based awards offset by increased labor costs at our corporate headquarters. General and administrative expenses, as a percentage of total revenues decreased 140 basis points to 4.6% in the second quarter of fiscal 2018 compared to 6.0% in the second quarter of fiscal 2017, for the same reasons noted above and favorable leverage on increased revenue.

***Depreciation and amortization expense***

Depreciation and amortization expense increased by \$4,202 or 16.9%, to \$29,049 in the second quarter of fiscal 2018 compared to \$24,847 in the second quarter of fiscal 2017. Increased depreciation due to our 2017 and 2018 capital expenditures for new stores, operating initiatives, including remodels, games and maintenance capital, was partially offset by other assets reaching the end of their depreciable lives.

***Pre-opening costs***

Pre-opening costs increased by \$782 to \$5,328 in the second quarter of fiscal 2018 compared to \$4,546 in the second quarter of fiscal 2017 due primarily to the number and timing of new store openings and stores in development.

**Table of Contents*****Interest expense, net***

Interest expense, net increased by \$1,165 to \$3,228 in the second quarter of fiscal 2018 compared to \$2,063 in the second quarter of fiscal 2017 due primarily to higher variable interest rates and an increase in average outstanding debt.

***Provision for income taxes***

The effective income tax rate increased to 20.9% in the second quarter of fiscal 2018 compared to 18.2% in the second quarter of fiscal 2017. The increase reflects a lower excess tax benefit associated with share-based compensation partially offset by the lower U.S. federal corporate tax rate established by the Tax Cuts and Jobs Act (the Tax Act) enacted on December 22, 2017. Other differences from the statutory rate are due to the FICA tip credits, state income taxes and the impact of certain income and expense items which are not recognized for income tax purposes.

**Twenty-six Weeks Ended August 5, 2018 Compared to Twenty-six Weeks Ended July 30, 2017**

**Results of operations** The following table sets forth selected data, in thousands of dollars and as a percentage of total revenues (unless otherwise noted) for the periods indicated. All information is derived from the unaudited accompanying consolidated statements of comprehensive income.

|   | <b>Twenty-six Weeks<br/>Ended<br/>August 5, 2018</b> |              | <b>Twenty-six Weeks<br/>Ended<br/>July 30, 2017</b> |              |
|---|--|--------------|---|--------------|
| Food and beverage revenues  | \$ 269,997   | 41.5%        | \$ 248,500  | 42.5%        |
| Amusement and other revenues  | 381,381  | 58.5         | 336,399   | 57.5         |
| <b>Total revenues</b>   | <b>651,378</b>                                       | <b>100.0</b> | <b>584,899</b>                                      | <b>100.0</b> |
| Cost of food and beverage (as a percentage of food and beverage revenues)     | 70,018   | 25.9         | 63,175  | 25.4         |
| Cost of amusement and other (as a percentage of amusement and other revenues) | 42,677   | 11.2         | 34,261  | 10.2         |
| <b>Total cost of products</b>   | <b>112,695</b>                                       | <b>17.3</b>  | <b>97,436</b>                                       | <b>16.7</b>  |
| Operating payroll and benefits  | 146,630  | 22.5         | 129,643   | 22.2         |
| Other store operating expenses  | 188,165  | 28.9         | 164,897   | 28.2         |
| General and administrative expenses   | 30,418   | 4.7          | 31,740  | 5.4          |
| Depreciation and amortization expense   | 56,555   | 8.7          | 48,775  | 8.3          |
| Pre-opening costs   | 12,381   | 1.9          | 9,017   | 1.5          |
| <b>Total operating costs</b>  | <b>546,844</b>                                       | <b>84.0</b>  | <b>481,508</b>                                      | <b>82.3</b>  |
| <b>Operating income</b>   | <b>104,534</b>                                       | <b>16.0</b>  | <b>103,391</b>                                      | <b>17.7</b>  |
| Interest expense, net   | 6,085  | 0.9          | 3,917   | 0.7          |
| <b>Income before provision for income taxes</b>                               | <b>98,449</b>  | <b>15.1</b>  | <b>99,474</b>                                       | <b>17.0</b>  |
| Provision for income taxes  | 22,520   | 3.4          | 26,322  | 4.5          |

|  |           |        |           |       |
|--|-----------|--------|-----------|-------|
| Net income                                 | \$ 75,929 | 11.7%  | \$ 73,152 | 12.5% |
| Change in comparable store sales (1)       |           | (3.7)% |           | 1.7%  |
| Company owned stores open at end of period |           | 117    |           | 100   |
| Comparable stores open at end of period    |           | 86     |           | 76    |

- (1) The change in comparable store sales in fiscal 2018 has been calculated by shifting forward our 2017 fiscal year comparable store sales results by one week, to account for the fact that our 2017 fiscal year consisted of 53 weeks.

**Table of Contents****Reconciliations of Non-GAAP Financial Measures****Adjusted EBITDA**

The following table reconciles (in dollars and as a percent of total revenues) Net income to Adjusted EBITDA for the periods indicated:

|                                       | <b>Twenty-six<br/>Weeks<br/>Ended<br/>August 5, 2018</b> |              | <b>Twenty-six Weeks<br/>Ended<br/>July 30, 2017</b> |              |
|---------------------------------------|--|--------------|---|--------------|
| Net income                            | \$ 75,929  | 11.7%        | \$ 73,152   | 12.5%        |
| Interest expense, net                 | 6,085  |              | 3,917   |              |
| Provision for income taxes            | 22,520   |              | 26,322  |              |
| Depreciation and amortization expense | 56,555   |              | 48,775  |              |
| <b>EBITDA</b>                         | <b>161,089</b>   | <b>24.7%</b> | <b>152,166</b>                                      | <b>26.0%</b> |
| Loss on asset disposal                | 693  |              | 884   |              |
| Share-based compensation              | 4,014  |              | 4,449   |              |
| Pre-opening costs                     | 12,381   |              | 9,017   |              |
| Other costs (1)                       | 121  |              | (375)   |              |
| <b>Adjusted EBITDA</b>                | <b>\$ 178,298</b>  | <b>27.4%</b> | <b>\$ 166,141</b>                                   | <b>28.4%</b> |

(1) Primarily represents costs related to currency transaction (gains) or losses.

**Store Operating Income Before Depreciation and Amortization**

The following table reconciles (in dollars and as a percent of total revenues) Operating income to Store Operating Income Before Depreciation and Amortization for the periods indicated:

|  | <b>Twenty-six<br/>Weeks<br/>Ended<br/>August 5, 2018</b> |              | <b>Twenty-six Weeks<br/>Ended<br/>July 30, 2017</b> |              |
|--|--|--------------|---|--------------|
| Operating income   | \$ 104,534   | 16.0%        | \$ 103,391  | 17.7%        |
| General and administrative expenses                                    | 30,418   |              | 31,740  |              |
| Depreciation and amortization expense                                  | 56,555   |              | 48,775  |              |
| Pre-opening costs  | 12,381   |              | 9,017   |              |
| <b>Store Operating Income Before Depreciation and<br/>Amortization</b> | <b>\$ 203,888</b>  | <b>31.3%</b> | <b>\$ 192,923</b>                                   | <b>33.0%</b> |

**Capital Additions**

The following table represents total accrual-based additions to property and equipment. Total capital additions do not include any reductions for Payments from landlords.

|                                     | <b>Twenty-six Weeks<br/>Ended<br/>August 5, 2018</b> | <b>Twenty-six Weeks<br/>Ended<br/>July 30, 2017</b> |
|-------------------------------------|--|---|
| New store and operating initiatives | \$ 78,464  | \$ 80,474   |
| Games                               | 18,604   | 8,292   |
| Maintenance capital                 | 10,726   | 5,536   |
| <br>Total capital additions         | <br>\$ 107,794                                       | <br>\$ 94,302                                       |
| <br>Payments from landlords         | <br>\$ 30,545  | <br>\$ 21,674                                       |

**Results of Operations****Revenues**

Total revenues increased \$66,479, or 11.4%, to \$651,378 in the twenty-six week period ended August 5, 2018 compared to total revenues of \$584,899 in the twenty-six week period ended July 30, 2017. For the twenty-six weeks ended August 5, 2018, we derived 28.6% of our total revenue from food sales, 12.9% from beverage sales, 57.9% from amusement sales and 0.6% from other sources. For the twenty-six weeks ended July 30, 2017, we derived 29.1% of our total revenue from food sales, 13.4% from beverage sales, 56.8% from amusement sales and 0.7% from other sources.

**Table of Contents**

As a result of the 53 week year in fiscal 2017, our 2018 fiscal year began one week later than our 2017 fiscal year. The comparable store revenue discussion presented below has been prepared by shifting forward our 2017 fiscal year results by one week, in order to provide more useful information to investors to better analyze our business. We have estimated that the one week shift would result in total revenues for the comparable 2017 period being \$4,288 higher than the total revenues reported in the twenty-six week period ended July 30, 2017. We have estimated that 2017 comparable store sales would be \$2,951 higher and that 2017 non-comparable stores and other sales would have been \$1,337 higher.

The net increase in revenues for the twenty-six weeks ended August 5, 2018 compared to the reported twenty-six week period ended July 30, 2017 were from the following sources:

|   |                  |
|---|------------------|
| Comparable stores   | \$ (19,391)      |
| Comparable stores shift in week impact                              | 2,951            |
| Non-comparable stores   | 83,565           |
| Non-comparable stores shift in week impact                          | 1,331            |
| Other (including a increase of \$6 due to the shift in week impact) | (1,977)          |
| <b>Total</b>  | <b>\$ 66,479</b> |

Comparable store revenue decreased \$19,391, or 3.7%, in the twenty-six weeks ended August 5, 2018 compared to the comparable twenty-six weeks of fiscal 2017. Comparable store revenue compared to prior year was, in part, negatively impacted by increased competitive pressure and sales transfers to new stores that we opened in markets where we operate. Comparable walk-in revenues, which accounted for 91.3% of comparable store revenue for the twenty-six weeks ended August 5, 2018, decreased \$18,033, or 3.8% compared to the similar period in fiscal 2017. Comparable store special events revenues, which accounted for 8.7% of comparable store revenue for the twenty-six weeks ended August 5, 2018, decreased \$1,358, or 3.0% compared to the comparable period in fiscal 2017.

Food sales at comparable stores decreased by \$7,632, or 5.1%, to \$142,772 in the twenty-six weeks ended August 5, 2018 from \$150,404 in the comparable period in fiscal 2017. Beverage sales at comparable stores decreased by \$3,686, or 5.4%, to \$64,469 in the twenty-six weeks ended August 5, 2018 from \$68,155 in the 2017 comparison period. The decrease in food and beverage unit sales at comparable stores was partially offset by an overall increase in menu prices. Comparable store amusement and other revenues in the twenty-six weeks ended August 5, 2018 decreased by \$8,073, or 2.7%, to \$294,816 from \$302,889 in the comparable twenty-six weeks of fiscal 2017. The decrease in amusements sales was primarily driven by a decrease in the number of Power Cards sold.

Non-comparable store revenue increased \$84,896, for the twenty-six week period ended August 5, 2018 compared to the twenty-six week period ended July 30, 2017. The increase in non-comparable store revenue was primarily driven by 404 additional operating store weeks contributed by our thirty-one non-comparable stores, seventeen of which opened subsequent to the second quarter of fiscal 2017.

**Cost of products**

The total cost of products was \$112,695 for the twenty-six week period ended August 5, 2018 and \$97,436 for the twenty-six week period ended July 30, 2017. The total cost of products as a percentage of total revenues was 17.3% and 16.7% for the twenty-six weeks ended August 5, 2018 and the twenty-six week period ended July 30, 2017,

respectively.

Cost of food and beverage products increased to \$70,018 in the twenty-six week period ended August 5, 2018 compared to \$63,175 in the twenty-six week period ended July 30, 2017 due primarily to the increased sales volume. Cost of food and beverage products, as a percentage of food and beverage revenues, increased 50 basis points to 25.9% for the twenty-six week period ended August 5, 2018 from 25.4% for the twenty-six weeks ended July 30, 2017. The increase in cost of food and beverage as a percentage of revenue was driven by higher meat costs resulting from our upgraded burger product, higher commodity costs in our poultry and potato items as well as the impact of our larger non-comparable store group, partially offset by increases in food and beverage prices.

Cost of amusement and other increased to \$42,677 in the twenty-six week period ended August 5, 2018 compared to \$34,261 in the twenty-six week period ended July 30, 2017. The costs of amusement and other, as a percentage of amusement and other revenues increased 100 basis points to 11.2% for the twenty-six weeks ended August 5, 2018 from 10.2% for the twenty-six weeks ended July 30, 2017. This increase was due primarily to a \$2,531, or 80 basis point, amusement cost reduction in the twenty-six week period ended July 30, 2017, for the favorable settlement of a multi-year use tax audit by the state of Texas. This cost reduction represents the excess use tax on redemption items during the period from July 2011 through January 2017.

---

**Table of Contents*****Operating payroll and benefits***

Total operating payroll and benefits increased by \$16,987, or 13.1%, to \$146,630 in the twenty-six week period ended August 5, 2018 compared to \$129,643 in the twenty-six week period ended July 30, 2017. This increase was primarily due to labor associated with additional operating store weeks of our non-comparable stores. The total cost of operating payroll and benefits, as a percent of total revenues, increased 30 basis points to 22.5% for the twenty-six weeks ended August 5, 2018 from 22.2% in the twenty-six weeks ended July 30, 2017. This increase was primarily due to a hourly wage rate increase of approximately 4% and unfavorable leverage on decreased comparable store sales.

***Other store operating expenses***

Other store operating expenses increased by \$23,268, or 14.1%, to \$188,165, in the twenty-six week period ended August 5, 2018 compared to \$164,897 in the twenty-six week period ended July 30, 2017, primarily due to new store openings. Other store operating expenses, as a percentage of total revenues, increased 70 basis points to 28.9% in the twenty-six weeks ended August 5, 2018 compared to 28.2% in the twenty-six week period ended July 30, 2017. This increase was due primarily to unfavorable leverage of our occupancy costs on decreased comparable store sales, increased margin pressure on occupancy costs associated with our recent store openings and higher marketing costs mainly due to our increased investment in digital media.

***General and administrative expenses***

General and administrative expenses decreased by \$1,322, or 4.2%, to \$30,418 in the twenty-six week period ended August 5, 2018 compared to \$31,740 in the twenty-six week period ended July 30, 2017. The decrease in general and administrative expenses was primarily driven by a \$2,550 charge for litigation settlement costs recorded in the twenty-six weeks ended July 30, 2017 and lower incremental compensation costs related to our share-based awards partially offset by increased labor costs at our corporate headquarters. General and administrative expenses, as a percentage of total revenues, decreased 70 basis points to 4.7% in the twenty-six weeks ended August 5, 2018 compared to 5.4% in the twenty-six week period ended July 30, 2017, for the same reasons above and as a result of favorable leverage on revenue increases.

***Depreciation and amortization expense***

Depreciation and amortization expense increased by \$7,780, or 16.0%, to \$56,555 in the twenty-six week period ended August 5, 2018 compared to \$48,755 in the twenty-six week period ended July 30, 2017. Increased depreciation due to our 2017 and 2018 capital expenditures for new stores, operating initiatives, including remodels, games and maintenance capital, was partially offset by other assets reaching the end of their depreciable lives.

***Pre-opening costs***

Pre-opening costs increased by \$3,364 to \$12,381 in the twenty-six week period ended August 5, 2018 compared to \$9,017 in the twenty-six week period ended July 30, 2017 due primarily to the number and timing of new store openings and stores in development.

***Interest expense, net***

Interest expense, net increased by \$2,168 to \$6,085 in the twenty-six week period ended August 5, 2018 compared to \$3,917 in the twenty-six week period ended July 30, 2017 due primarily to higher variable interest rates and an increase in average outstanding debt.



***Provision for income taxes***

The effective income tax rate for the twenty-six weeks ended August 5, 2018 was 22.9%, compared to 26.5% for the twenty-six weeks ended July 30, 2017. This decrease reflects the lower U.S. federal corporate tax rate established by the Tax Act enacted on December 22, 2017, partially offset by a lower excess tax benefit associated with share-based compensation. Other differences from the statutory rate are due to the FICA tip credits, state income taxes and the impact of certain income and expense items which are not recognized for income tax purposes.

## **Table of Contents**

### **Liquidity and Capital Resources**

#### **Overview**

We finance our activities through cash flow from operations and availability under our existing credit facility. As of August 5, 2018, we had cash and cash equivalents of \$22,398, net working capital deficit of \$114,201 and outstanding debt obligations of \$362,750. We also had \$420,953 in borrowing availability under our existing credit facility.

Our Board of Directors approved a share repurchase program, under which the Company may repurchase shares on the open market, through privately negotiated transactions, and through trading plans designed to comply with Rule 10b5-1 of the Exchange Act. The share repurchase program may be modified, suspended or discontinued at any time. As of August 5, 2018, we had approximately \$58,182 remaining of a total \$300,000 share repurchase authorization. The existing share repurchase program expires at the end of fiscal 2018. Our Board of Directors may authorize additional share repurchases or other capital allocation initiatives to return value to shareholders as allowable under our existing credit facility.

We currently have, and anticipate that in the future we may continue to have, negative working capital balances. We are able to operate with a working capital deficit because cash from sales is usually received before related liabilities for product, supplies, labor and services become due. Funds available from sales not needed immediately to pay for operating expenses have typically been used for capital expenditures and payment of long-term debt obligations.

***Short-term liquidity requirements.*** We generally consider our short-term liquidity requirements to consist of those items that are expected to be incurred within the next twelve months and believe those requirements to consist primarily of funds necessary to pay operating expenses, interest and principal payments on our debt, capital expenditures related to the new store construction and other expenditures associated with acquiring new games, remodeling facilities and recurring replacement of equipment and improvements.

***Long-term liquidity requirements.*** We generally consider our long-term liquidity requirements to consist of those items that are expected to be incurred beyond the next twelve months and believe these requirements consist primarily of funds necessary for new store development and construction, replacement of games and equipment, performance-necessary renovations and other capital expenditures that need to be made periodically to our stores, principal and interest payments on our outstanding term loan and scheduled lease obligation payments. We intend to satisfy our long-term liquidity requirements through various sources of capital, including our existing cash on hand, cash provided by operations, and borrowings under the revolving portion of our credit facility.

Based on our current business plan, we believe the cash flows from operations, together with our existing cash balances and availability of borrowings under the revolving portion of our credit facility will be sufficient to meet our anticipated cash needs for working capital, capital expenditures, debt service needs, and share repurchases in the foreseeable future. Our ability to make scheduled principal and interest payments, or to refinance our indebtedness, or to fund planned capital expenditures, will depend on future performance, which is subject to general economic conditions, competitive environment and other factors.

#### **Cash Flows**

The following table presents a summary of our net cash provided by (used in) operating, investing and financing activities:

|  | <b>Twenty-six<br/>Weeks<br/>Ended August 5, 2018</b> | <b>Twenty-six<br/>Weeks<br/>Ended July 30, 2017</b> |
|--|--|---|
| <b>Net cash provided by (used in):</b> |  |   |
| Operating activities                   | \$ 184,911   | \$ 158,106  |
| Investing activities                   | (116,506)  | (98,920)  |
| Financing activities                   | (64,802)   | (58,673)  |

Net cash provided by operating activities was \$184,911 for the twenty-six weeks ended August 5, 2018 compared to \$158,106 for the twenty-six weeks ended July 30, 2017. Increased cash flows from operations were driven primarily by increased cash flows from additional non-comparable store sales offset by decreased comparable store sales and lower operating margins.

Net cash used in investing activities was \$116,506 for the twenty-six weeks ended August 5, 2018 compared to \$98,920 for the twenty-six weeks ended July 30, 2017. Capital expenditures increased \$16,867 to \$116,624 (excluding the decrease in fixed asset accounts payable of \$8,830) in the twenty-six weeks ended August 5, 2018 from \$99,757 in the twenty-six weeks ended July 30, 2017. During the twenty-six weeks ended August 5, 2018, the Company spent \$86,979 (\$56,434 net of payments from landlords) for new store construction and operating improvement initiatives, \$19,065 for game refreshment and \$10,580 for maintenance capital. During the twenty-six weeks ended July 30, 2017, we spent \$84,738 (\$63,064 net of payments from landlords) for new store construction and operating improvement initiatives including major remodel projects on four existing stores, \$9,789 for game refreshment and \$5,230 for maintenance capital.

**Table of Contents**

Net cash used in financing activities increased by \$6,129 to \$64,802 in the twenty-six weeks ended August 5, 2018 compared to \$58,673 for the twenty-six weeks ended July 30, 2017. The increase in cash used in financing activities was primarily due to net repayments of debt of approximately \$4,500 in the twenty-six weeks ended August 5, 2018 compared to net borrowings of approximately \$37,250 in the twenty-six weeks ended July 30, 2017 offset by lower repurchases of common stock during the twenty-six weeks ended August 5, 2018 compared to the twenty-six weeks ended July 30, 2017.

We plan on financing future growth through existing cash on hand, future operating cash flows, debt facilities and payments from landlords. We expect to spend between \$229,000 and \$239,000 (\$179,000 to \$189,000 net of payments from landlord) in capital additions during fiscal 2018. The fiscal 2018 additions are expected to include approximately \$176,000 to \$186,000 (\$126,000 to \$136,000 net of payments from landlords) for new store construction and operating improvement initiatives, \$26,000 for game refreshment and \$27,000 in maintenance capital. A portion of the 2018 new store spend is related to stores that will be under construction in 2018 but will not be open until 2019.

**Contractual Obligations and Commercial Commitments**

The following table sets forth our expected future annual contractual obligations and commercial commitments as of August 5, 2018:

|                           | <b>Total</b>        | <b>1 Year</b>     | <b>2-3<br/>Years</b> | <b>4-5<br/>Years</b> | <b>After 5<br/>Years</b> |
|---------------------------|---------------------|-------------------|----------------------|----------------------|--------------------------|
| Credit Facility (1)       | \$ 362,750          | \$ 15,000         | \$ 30,000            | \$ 317,750           | \$                       |
| Interest requirements (2) | 45,297              | 11,966            | 22,425               | 10,906               |                          |
| Operating leases (3)      | 1,611,953           | 113,655           | 214,535              | 188,568              | 1,095,195                |
| <b>Total</b>              | <b>\$ 2,020,000</b> | <b>\$ 140,621</b> | <b>\$ 266,960</b>    | <b>\$ 517,224</b>    | <b>\$ 1,095,195</b>      |

- (1) The Credit Facility includes a \$300,000 term loan facility and \$500,000 revolving credit facility. As of August 5, 2018, we had borrowings of \$288,750 under the term loan facility and borrowings of \$74,000 under the revolving credit facility.
- (2) The cash obligations for interest requirements consist of variable rate debt obligations at rates in effect on August 5, 2018 of 3.33%.
- (3) Our operating leases generally provide for one or more renewal options. These renewal options allow us to extend the term of the lease for a specified time at an established annual lease payment. Future obligations related to lease renewal options that have been exercised or were reasonably assured to be exercised as of the lease origination date, have been included in the table above.

**Accounting policies and estimates**

The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosures of contingent assets and liabilities. These estimates and assumptions affect amounts of assets, liabilities, revenues and expenses and the disclosure of gain and loss contingencies at the date of the consolidated financial statements. Our current estimates are subject to change if different assumptions as to the outcome of future events were made. We evaluate our estimates

and judgments on an ongoing basis and we adjust our assumptions and judgments when facts and circumstances dictate. Since future events and their effects cannot be determined with absolute certainty, actual results may differ from the estimates we used in preparing the accompanying consolidated financial statements. A complete description of our critical accounting policies and estimates is included in our annual consolidated financial statements and the related notes in our Annual Report on Form 10-K filed with the SEC on April 3, 2018.

***Recent accounting pronouncements***

Refer to Note 1, *Summary of Significant Accounting Policies*, of Notes to Unaudited Consolidated Financial Statements for information regarding new accounting pronouncements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Commodity Price Risk**

We are exposed to market price fluctuation in food and beverage product prices. Given the historical volatility of certain of our food product prices, including proteins, seafood, produce, dairy products, and cooking oil, these fluctuations can materially impact our food costs. While our purchasing commitments partially mitigate the risk of such fluctuations, there is no assurance that supply and demand factors such as disease or inclement weather will not cause the prices of the commodities used in our restaurant operations to

## **Table of Contents**

fluctuate. In a rapidly-fluctuating commodities market, it may prove difficult for us to adjust our menu prices to respond to any price fluctuations. Therefore, to the extent that we do not pass along cost increases to our customers, our results of operations may be adversely affected. At this time, we do not use financial instruments to hedge our commodity risk.

### **Interest Rate Risk**

We are exposed to interest rate risk arising from changes in interest rates due to the variable rate indebtedness under our credit facility. Borrowings pursuant to our credit facility bear interest at a floating rate based on LIBOR, plus an applicable margin. Accordingly, fluctuations in market interest rates may increase or decrease our interest expense which will, in turn, increase or decrease our net income and cash flow. We estimate that a hypothetical 25 basis point increase in one-month LIBOR would increase our annualized interest expense in the next year by approximately \$900, assuming no change in the balance of the revolving portion of the credit facility.

### **Inflation**

The primary inflationary factors affecting our operations are food, labor costs, and energy costs. Many of our leases require us to pay taxes, maintenance, repairs, insurance and utilities, all of which are generally subject to inflationary increases. Finally, the cost of constructing our stores is subject to inflationary increases in the costs of labor and material.

We have a substantial number of hourly employees who are paid wage rates at or based on the applicable federal, state or city minimum wage and increases in the minimum wage will increase our labor costs. Several states and local jurisdictions in which we operate have enacted legislation to increase the minimum wage and/or minimum tipped wage rates by varying amounts, with more planned increases in the future.

In general, we have been able to partially offset cost increases resulting from inflation by increasing menu prices, improving productivity, or other operating changes. We may or may not be able to offset cost increases in the future.

## **ITEM 4. CONTROLS AND PROCEDURES**

### ***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including the Chief Executive Officer and interim Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and interim Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

### ***Changes in Internal Control Over Financial Reporting***

There were no significant changes in our internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during our second quarter ended August 5, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Information regarding legal proceedings is incorporated by reference from Note 4 to our Unaudited Consolidated Financial Statements set forth in Part I of this report.

**ITEM 1A. RISK FACTORS**

There have been no material changes in the risk factors previously disclosed in our Annual Report as filed on Form 10-K on April 3, 2018.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Information regarding repurchase of our common stock, in thousands, except share and per share amounts, during the thirteen weeks ended August 5, 2018:

| <b>Period (1)</b>             | <b>Total Number of Shares Repurchased</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Repurchased as Part of Publicly Announced Plan (2)</b> | <b>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan (2)</b> |
|-------------------------------|---|-------------------------------------|--|--|
| May 7, 2018 - June 3, 2018    | 222,414                                   | \$ 40.74                            | 222,414  | \$ 82,834  |
| June 4, 2018 - July 8, 2018   | 198,811                                   | \$ 49.02                            | 198,811  | \$ 73,088  |
| July 9, 2018 - August 5, 2018 | 307,528                                   | \$ 48.47                            | 307,528  | \$ 58,182  |

- (1) Monthly information is presented by reference to our fiscal periods during the thirteen weeks ended August 5, 2018.
- (2) Our Board of Directors approved a share repurchase program, under which the Company may repurchase shares on the open market, through privately negotiated transactions, and through trading plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The share repurchase program may be modified, suspended or discontinued at any time. On September 11, 2018, our Board of Directors approved an extension of our share repurchase program through the end of fiscal 2020 and approved an additional \$100,000 in common shares repurchases, increasing the total share repurchase authorization to \$400,000.



**Table of Contents**

**ITEM 5. OTHER INFORMATION**

On August 5, 2018, Brian A. Jenkins, 56, succeeded Mr. Stephen M. King as Chief Executive Officer of the Company. Mr. Jenkins previously served as the Company's Senior Vice President and Chief Financial Officer since December 2006. From 1996 to 2006, he held various positions, including Senior Vice President-Finance, with Six Flags, Inc., and from 1990 to 1996, he held various positions, including Vice President of Corporate Planning and Business Development, with FoxMeyer Health Corporation. On the same day Mr. Joe DeProspero, 44, assumed the responsibilities of Chief Financial Officer on an interim basis. Mr. DeProspero is the Company's Vice President of Finance having served in the position since May 2010 and was previously the Company's Assistant Vice President of Finance from 2006 to 2010. From 2005 to 2006, he served as Director of Financial Planning & Analysis for Arby's Restaurant Group, and from 2001 to 2005, he served as Director of Financial Analysis, with Carlson Restaurants Worldwide, Inc. For his service as Chief Financial Officer on an interim basis, Mr. DeProspero will be eligible to earn additional cash bonuses.

**Table of Contents**

**ITEM 6. EXHIBITS**

**Exhibit**

| <b>Number</b> | <b>Description</b>   |
|---------------|--|
| 31.1*         | <u>Certification of Brian A. Jenkins, Chief Executive Officer of the Registrant, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a).</u>   |
| 31.2*         | <u>Certification of Joe DeProspero, interim Chief Financial Officer of the Registrant, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a).</u>   |
| 32.1*         | <u>Certification of Brian A. Jenkins, Chief Executive Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>       |
| 32.2*         | <u>Certification of Joe DeProspero, interim Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 101           | XBRL Interactive Data files  |

\* Filed herein

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DAVE & BUSTER S ENTERTAINMENT, INC.,

a Delaware corporation

Date: September 14, 2018

By: /s/ Brian A. Jenkins  
Brian A. Jenkins  
Chief Executive Officer

Date: September 14, 2018

By: /s/ Joe DeProspero  
Joe DeProspero  
Interim Chief Financial Officer