

Dave & Buster's Entertainment, Inc.  
Form 10-Q  
December 08, 2015  
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**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 November 1, 2015**

**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 checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and small reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of December 2, 2015, there were 41,511,877 shares of the Issuer's common stock outstanding.



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**DAVE & BUSTER S ENTERTAINMENT, INC.  
FORM 10-Q FOR PERIOD ENDED NOVEMBER 1, 2015**

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**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>November 1, 2015 (unaudited)</b>	<b>February 1, 2015 (audited)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 19,329	\$ 70,876
Inventories	19,623	18,457
Prepaid expenses	13,504	10,641
Deferred income taxes	26,828	30,962
Income taxes receivable	4,170	2,421
Other current assets	15,609	9,923
<b>Total current assets</b>	<b>99,063</b>	<b>143,280</b>
Property and equipment (net of \$292,668 and \$252,160 accumulated depreciation as of November 1, 2015 and February 1, 2015, respectively)	502,518	436,048
Tradenames	79,000	79,000
Goodwill	272,623	272,592
Other assets and deferred charges	18,695	19,769
<b>Total assets</b>	<b>\$ 971,899</b>	<b>\$ 950,689</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current installments of long-term debt	\$ 7,500	\$
Accounts payable	42,270	35,001
Accrued liabilities	100,276	89,198
Income taxes payable	2,178	1,570
Deferred income taxes	776	371
<b>Total current liabilities</b>	<b>153,000</b>	<b>126,140</b>
Deferred income taxes	21,146	27,828
Deferred occupancy costs	118,467	99,847
Other liabilities	11,218	9,157
Long-term debt, net of unamortized discount	347,625	429,020

Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value, 400,000,000 authorized shares; 41,501,078 and 40,217,640 issued shares as of November 1, 2015 and February 1, 2015, respectively	415	402
Preferred stock, 50,000,000 authorized; none issued		
Paid-in capital	277,645	253,685
Treasury stock, 0 and 248,412 shares as of November 1, 2015 and February 1, 2015, respectively		(1,189)
Accumulated other comprehensive loss	(731)	(646)
Retained earnings	43,114	6,445
<b>Total stockholders' equity</b>	<b>320,443</b>	<b>258,697</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 971,899</b>	<b>\$ 950,689</b>

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share amounts)

	<b>Thirteen Weeks Ended November 1, 2015</b>	<b>Thirteen Weeks Ended November 2, 2014</b>
Food and beverage revenues	\$ 89,826	\$ 78,179
Amusement and other revenues	102,927	85,295
<b>Total revenues</b>	<b>192,753</b>	<b>163,474</b>
Cost of food and beverage	23,575	20,249
Cost of amusement and other	12,842	12,091
<b>Total cost of products</b>	<b>36,417</b>	<b>32,340</b>
Operating payroll and benefits	48,048	41,237
Other store operating expenses	63,762	56,298
General and administrative expenses	12,640	11,393
Depreciation and amortization expense	20,032	17,648
Pre-opening costs	2,395	3,650
<b>Total operating costs</b>	<b>183,294</b>	<b>162,566</b>
<b>Operating income</b>	<b>9,459</b>	<b>908</b>
Interest expense, net	2,184	6,130
Loss on debt retirement		1,592
<b>Income (loss) before provision (benefit) for income taxes</b>	<b>7,275</b>	<b>(6,814)</b>
Provision (benefit) for income taxes	2,721	(2,207)
<b>Net income (loss)</b>	<b>4,554</b>	<b>(4,607)</b>
Unrealized foreign currency translation gain (loss)	5	(113)
<b>Total comprehensive income (loss)</b>	<b>\$ 4,559</b>	<b>\$ (4,720)</b>
<b>Net income (loss) per share:</b>		
Basic	\$ 0.11	\$ (0.13)
Diluted	\$ 0.11	\$ (0.13)
<b>Weighted average shares used in per share calculations:</b>		
Basic	41,241,274	34,881,763
Diluted	42,938,502	34,881,763

See accompanying notes to consolidated financial statements.





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

(in thousands, except share and per share amounts)

	<b>Thirty-Nine Weeks Ended November 1, 2015</b>	<b>Thirty-Nine Weeks Ended November 2, 2014</b>
Food and beverage revenues	\$ 292,604	\$ 256,077
Amusement and other revenues	340,163	283,605
<b>Total revenues</b>	<b>632,767</b>	<b>539,682</b>
Cost of food and beverage	76,235	65,939
Cost of amusement and other	43,682	39,335
<b>Total cost of products</b>	<b>119,917</b>	<b>105,274</b>
Operating payroll and benefits	147,121	126,357
Other store operating expenses	188,769	170,440
General and administrative expenses	38,985	31,462
Depreciation and amortization expense	58,247	52,321
Pre-opening costs	7,754	7,942
<b>Total operating costs</b>	<b>560,793</b>	<b>493,796</b>
<b>Operating income</b>	<b>71,974</b>	<b>45,886</b>
Interest expense, net	9,057	29,826
Loss on debt retirement	6,822	27,578
<b>Income (loss) before provision (benefit) for income taxes</b>	<b>56,095</b>	<b>(11,518)</b>
Provision (benefit) for income taxes	19,426	(4,494)
<b>Net income (loss)</b>	<b>36,669</b>	<b>(7,024)</b>
Unrealized foreign currency translation loss	(85)	(47)
<b>Total comprehensive income (loss)</b>	<b>\$ 36,584</b>	<b>\$ (7,071)</b>
<b>Net income (loss) per share:</b>		
Basic	\$ 0.90	\$ (0.21)
Diluted	\$ 0.86	\$ (0.21)
<b>Weighted average shares used in per share calculations:</b>		
Basic	40,775,253	33,763,436
Diluted	42,677,807	33,763,436

See accompanying notes to consolidated financial statements.



Table of Contents**DAVE & BUSTER S ENTERTAINMENT, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(in thousands, except share amounts)

	Common stock		Paid-in	Treasury stock		Accumulated	Retained	Total
	Shares	Amt.	capital	Shares	Amt.	other	earnings	
						loss		
<b>Balance February 1, 2015 (audited)</b>	40,217,640	\$ 402	\$ 253,685	248,412	\$ (1,189)	\$ (646)	\$ 6,445	\$ 258,697
Net income							36,669	36,669
Unrealized foreign currency translation loss						(85)		(85)
Stock-based compensation			2,590					2,590
Excess income tax benefit related to stock-based compensation plans			15,711					15,711
Issuance of common stock upon exercise of options	1,283,438	13	5,745					5,758
Sale of treasury stock			(86)	(248,412)	1,189			1,103
<b>Balance November 1, 2015 (unaudited)</b>	41,501,078	\$ 415	\$ 277,645		\$	\$ (731)	\$ 43,114	\$ 320,443

See accompanying notes to consolidated financial statements.

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

(in thousands)

	<b>Thirty-Nine Weeks Ended November 1, 2015</b>	<b>Thirty-Nine Weeks Ended November 2, 2014</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 36,669	\$ (7,024)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	58,247	52,321
Payment of accreted interest at debt retirement		(50,193)
Accretion of note discount		8,341
Deferred taxes	(2,145)	(8,065)
Excess income tax benefit related to stock-based compensation plans	(15,711)	
Loss on disposal of fixed assets	1,165	1,267
Loss on debt retirement	6,790	8,580
Share-based compensation charges	2,590	1,864
Other, net	931	2,026
Changes in assets and liabilities:		
Inventories	(1,166)	(529)
Prepaid expenses	(2,812)	(2,557)
Income taxes receivable	(1,749)	344
Other current assets	(5,825)	2,110
Other assets and deferred charges	(3,640)	(1,034)
Accounts payable	834	7,086
Accrued liabilities	10,416	7,870
Income taxes payable	16,319	260
Deferred occupancy costs	18,615	12,253
Other liabilities	2,061	1,793
Net cash provided by operating activities	121,589	36,713
<b>Cash flows from investing activities:</b>		
Capital expenditures	(118,883)	(91,670)
Proceeds from sales of property and equipment	140	60
Receipts on notes receivable	1,220	
Net cash used in investing activities	(117,523)	(91,610)
<b>Cash flows from financing activities:</b>		

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Borrowings under new credit facility	455,000	
Repayments of new credit facility	(99,875)	
Borrowings under prior senior credit facility		528,675
Repayments of prior senior credit facilities and notes	(430,000)	(544,375)
Debt issuance costs	(3,310)	(8,212)
Proceeds from the issuance of common stock, net of underwriter fees		100,659
Payment of costs associated with the issuance of common stock		(984)
Proceeds from the sale of treasury stock and exercise of stock options	6,861	
Excess income tax benefit related to stock-based compensation plans	15,711	
Net cash provided by (used in) financing activities	(55,613)	75,763
Increase (decrease) in cash and cash equivalents	(51,547)	20,866
Beginning cash and cash equivalents	70,876	38,080
<b>Ending cash and cash equivalents</b>	<b>\$ 19,329</b>	<b>\$ 58,946</b>
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	\$ 6,998	\$ 2,900
Cash paid for interest, net of amounts capitalized	\$ 8,838	\$ 23,523
Increase (decrease) in fixed asset accrued liabilities	\$ 6,435	\$ 197
Cash paid for interest and debt fees, related to debt retirement	\$ 32	\$ 18,998
Cash paid for settlement of accreted interest of senior discount notes	\$	\$ 50,193

See accompanying notes to consolidated financial statements.

Table of Contents**DAVE & BUSTER'S ENTERTAINMENT, INC.****Notes to Consolidated Financial Statements****(in thousands, except share and per share data)****Note 1: Description of Business and Basis of Presentation**

**Description of business and basis of presentation** Dave & Buster's Entertainment, Inc. ( "D&B Entertainment" or the "Company" ), is a Delaware corporation headquartered in Dallas, Texas. As of November 1, 2015, Oak Hill Capital Partners III, L.P. and Oak Hill Capital Management Partners, III, L.P. (collectively, the "Oak Hill Funds" ) owned approximately 24.1% of the Company's outstanding stock. Certain members of our Board of Directors and our management control approximately 0.9% of our outstanding stock. The remaining 75.0% is owned by the public.

D&B Entertainment owns no significant assets or operations other than the ownership of all the common stock of Dave & Buster's Holdings, Inc. ( "D&B Holdings" ). D&B Holdings owns no significant assets or operations other than the ownership of all the common stock of Dave & Buster's, Inc. ( "D&B Inc" ). References to the "Company", "we", "us", and "our" refer to D&B Entertainment and its subsidiaries and any predecessor companies. All material intercompany accounts and transactions have been eliminated in consolidation. The Company's operating activities are conducted through D&B Inc. All dollar amounts are presented in thousands, unless otherwise noted, except share and per share amounts.

We operate our business as one operating and one reportable segment. Our one industry segment is the operation of high-volume entertainment and dining venues under the names "Dave & Buster's" and "Dave & Buster's Grand Sports Café". 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 for a 53 week year when the fourth quarter has 14 weeks. Our fiscal years ending January 31, 2016 ( "fiscal 2015" ) and February 1, 2015 ( "fiscal 2014" ), both consist of 52 weeks.

As of November 1, 2015, there were 77 stores in the United States and Canada. During the thirty-nine weeks of fiscal 2015 we opened six new stores, permanently closed our store in Farmingdale (Long Island), New York on February 8, 2015 and closed our store in Williamsville (Buffalo), New York on September 27, 2015. Our store closure in Williamsville, New York was replaced with a new store in Buffalo, New York which opened for business on October 1, 2015. The Buffalo, New York store is included in the six new store openings. On August 12, 2014, we permanently closed our location in Kensington/Bethesda, Maryland.

The following table sets forth our revenues and operating income (loss) for our closed locations for the periods indicated:

Store	Close Date	Revenues		Operating Income (Loss)	
		Thirty-Nine Weeks Ended	November 1, 2015	Thirty-Nine Weeks Ended	November 1, 2015
Williamsville (Buffalo), New York	September 27, 2015	\$ 4,418	\$ 4,622	\$(899)	\$ 368
Farmingdale (Long Island), New York	February 8, 2015	111	6,161	(354)	832

Kensington/Bethesda, Maryland	August 12, 2014	5,416	851
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In October 2014, we amended and restated our certificate of incorporation to increase our authorized share count to 450,000,000 shares of stock, including 400,000,000 shares of common stock and 50,000,000 shares of preferred stock, each with a par value \$0.01 per share and to split our common stock 224.9835679 for 1. Additionally, we completed our initial public offering (the IPO) of 6,764,705 shares of common stock at a price of \$16.00 per share. Unless otherwise noted herein, historic share data has been adjusted to give effect to the stock split.

In February 2015, we completed a follow-on offering of 7,590,000 shares of our common stock (including the underwriters overallotment option of 990,000 shares) at a price of \$29.50 per share. All of these shares were offered by the selling stockholders. In connection with the offering, 300,151 options were exercised at a weighted average price of \$4.49. We issued new shares in satisfaction of this exercise. We received \$1,346 upon the exercise of options which were sold as part of this offering.

In May 2015, we completed a follow-on offering of 9,775,000 shares of our common stock (including the underwriters overallotment option of 1,275,000 shares) at a price of \$31.50 per share. All of these shares were offered by the selling stockholders. In connection with the offering, 853,155 options were exercised at a weighted average price of \$4.46. We issued 604,743 new shares and utilized 248,412 treasury shares in satisfaction of this exercise. We received \$3,809 upon the exercise of options which were sold as part of this offering.

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On September 30, 2015, we completed a follow-on offering of 6,900,000 shares of our common stock (including the underwriters overallotment option of 900,000 shares) at a price of \$37.00 per share. All of these shares were offered by the selling stockholders. In connection with the offering, 366,476 options were exercised at a weighted average price of \$4.46. We issued new shares in satisfaction of this exercise. We received \$1,633 upon the exercise of options which were sold as part of this offering.

***Other current assets*** The balance includes construction allowance receivables of \$11,376 and \$6,839 as of November 1, 2015, and February 1, 2015, respectively, related to our new store openings. All receivable amounts are expected to be collected.

***Related party transactions*** We have an expense reimbursement agreement with Oak Hill Capital Management, LLC ( Oak Hill Capital ), which provides for the reimbursement of certain costs and expenses. We made payments to Oak Hill Capital of \$13 and \$44 during the thirteen and thirty-nine weeks ended November 1, 2015, respectively, and \$7 and \$41 during the thirteen and thirty-nine weeks ended November 2, 2014, respectively. We paid compensation of \$77 and \$116 during the thirteen and thirty-nine weeks ended November 1, 2015, respectively, and \$58 and \$176 during the thirteen and thirty-nine weeks ended November 2, 2014, respectively, to David Jones who serves as a senior advisor to the Oak Hill Funds, and Alan Lacy, who served as a senior advisor to the Oak Hill Funds until December 2014.

***Interim financial statements*** The accompanying unaudited 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 financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Operating results for the thirteen and thirty-nine weeks ended November 1, 2015 are not necessarily indicative of results that may be expected for any other interim period or for the year ending January 31, 2016. Our quarterly financial data should be read in conjunction with the audited financial statements and notes thereto for the year ended February 1, 2015, included in our Annual Report on Form 10-K as filed with the SEC.

***Concentration of credit risk*** Financial instruments which potentially subject us to a concentration of credit risk are cash and cash equivalents. We currently maintain our day-to-day operating cash balances with major financial institutions. At times, our operating cash balances may be in excess of the Federal Deposit Insurance Corporation ( FDIC ) insurance limit. From time to time, we invest temporary excess cash in overnight investments with expected minimal volatility, such as money market funds. Although we maintain balances that exceed the FDIC insured limit, we have not experienced any losses related to this balance, and we believe this credit risk to be minimal.

***Use of estimates*** The preparation of financial statements in conformity with GAAP requires us to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The Company's significant estimates include estimates for impairment of goodwill, useful lives of property and equipment, fair value of equity-based compensation, self-insurance reserves, deferred revenue on our Power Cards and gift cards, reserve for outstanding tickets, estimated effective tax rates and deferred tax valuation allowances.

***Recent accounting pronouncements*** In July 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of



Inventory. ASU 2015-11 requires inventory that is recorded using the first-in, first-out method to be measured at the lower of cost or net realizable value. This update is effective for annual and interim periods beginning after December 15, 2016 with early adoption permitted. We do not expect the adoption of ASU 2015-11 to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The amendments in this update provide guidance to customers as to whether a cloud computing arrangement includes a software license. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. ASU 2015-05 is effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 require the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for annual and interim periods beginning on or after December 15, 2015. In August, the FASB issued ASU No. 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation of Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 permits entities to defer and present debt issuance costs related to line-of-credit arrangements as assets. As of November 1, 2015, if we were to adopt ASU 2015-03 and ASU 2015-15, \$2,990 of net deferred financing costs would be reclassified from Other assets and deferred charges to a reduction in the carrying amount of our debt, of which \$2,101 is related to a line-of-credit arrangement, and could be presented as an asset.

**Note 2: Accrued Liabilities**

Accrued liabilities consist of the following as of:

	November 1, 2015	February 1, 2015
Compensation and benefits	\$ 23,246	\$ 22,735
Deferred amusement revenue	20,972	17,037
Rent	12,335	10,874
Amusement redemption liability	12,011	10,815
Deferred gift card revenue	5,394	6,162
Property taxes	5,334	3,827
Customer deposits	5,216	2,086
Sales and use tax	3,628	5,244
Current portion of long-term insurance reserves	3,361	3,361
Accrued Utilities	2,779	2,327
Other	6,000	4,730
Total accrued liabilities	\$ 100,276	\$ 89,198

**Note 3: Long-Term Debt**

Long-term debt consists of the following as of:

	November 1, 2015	February 1, 2015
Credit facility - term	\$ 148,125	\$
Credit facility - revolver	207,000	
July 2014 credit facility		430,000
Total debt outstanding	355,125	430,000
Less:		
Unamortized debt discount		(980)
Current installments	(7,500)	

Long-term debt, less current installments, net of unamortized discount	\$	347,625	\$	429,020
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***New Credit Facility*** On May 15, 2015, we entered into a new senior secured credit facility that provides a \$150,000 term loan facility and a \$350,000 revolving credit facility (the *Credit Facility* ) with a maturity date of May 15, 2020. The \$350,000 revolving credit facility includes a \$20,000 letter of credit sub-facility and a \$10,000 swingline sub-facility. The revolving credit facility is available to provide financing for general purposes. The term loan facility requires quarterly principal payments of \$1,875 which began in the third quarter of fiscal 2015 through maturity, when the remaining balance is due. The *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.

The initial proceeds of the *Credit Facility* of \$434,000 were used to refinance in full the balance of a prior credit facility of \$430,000 (the *July 2014 credit facility* ) and to pay related interest and expenses. As a result of the current refinancing, we incurred a loss on extinguishment charge of \$6,822, consisting of the write-off of unamortized debt issuance costs, unamortized discount and cash paid for related debt fees. Concurrent with the refinance, we utilized \$45,000 of available cash on hand to pay down a portion of the outstanding revolving portion of the *Credit Facility*.

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As of November 1, 2015, we had letters of credit outstanding of \$5,185 and \$137,815 of borrowing available under our Credit Facility. We believe that the carrying amount of the 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.

The interest rates per annum applicable to loans, other than swingline loans, under the Credit Facility are currently set based on a defined LIBOR rate plus an applicable margin. Swingline loans bear interest at a base rate plus an applicable margin. The loans bear interest subject to a pricing grid based on a secured leveraged ratio, at LIBOR plus a spread ranging from 1.50% to 2.25% for the term loans and the revolving loans. The stated weighted average interest rate on the Credit Facility at November 1, 2015 was 2.20%. The weighted average effective interest rate incurred on our borrowings under the Credit Facility was 2.57%. The weighted average effective rate includes amortization of debt issuance costs, commitment and other fees.

**Prior credit facilities** During the second quarter of fiscal 2014, proceeds of \$528,675 from the July 2014 credit facility were used to refinance all the outstanding credit facility and note balances at that time and to pay related premiums, interest and expenses of \$30,850. The outstanding credit facility and notes at July 25, 2014 included \$143,509 on a senior secured credit facility, \$200,000 aggregate principal amount of 11.0% senior notes due June 1, 2018, and the outstanding 12.25% senior discount notes due February 15, 2016 (with a \$150,193 accreted value as of July 25, 2014). In the third quarter of fiscal 2014, the Company wrote off \$1,586 in unamortized debt costs related to the use of IPO proceeds and available cash balances to repay \$100,000 principal amount of the July 2014 credit facility and recorded \$6 in additional legal expenses in connection with the debt refinancing that took place in second quarter. As a result of the refinancing and prepayment, we incurred a loss on extinguishment charge of \$27,578, consisting of premiums for early repayment, additional interest charges, and write-off of unamortized debt issue costs and unamortized discount.

**Future debt obligations** The following table sets forth our future debt principal payment obligations as of:

	<b>November 1, 2015</b>
1 year or less	\$ 7,500
2 years	7,500
3 years	7,500
4 years	7,500
5 years	325,125
Thereafter	
<b>Total future payments</b>	<b>\$ 355,125</b>

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

	<b>Thirteen Weeks</b>	<b>Thirteen Weeks</b>
	<b>Ended</b>	<b>Ended</b>
	<b>November 1, 2015</b>	<b>November 2, 2014</b>
D&B Inc debt-based interest expense	\$ 2,052	\$ 5,956
Amortization of issuance cost and discount	171	406
Interest income	(68)	(69)
Less capitalized interest	(87)	(163)
Change in fair value of interest rate cap	116	
Total interest expense, net	\$ 2,184	\$ 6,130
	<b>Thirty-Nine Weeks</b>	<b>Thirty-Nine Weeks</b>
	<b>Ended</b>	<b>Ended</b>
	<b>November 1, 2015</b>	<b>November 2, 2014</b>
D&B Inc debt-based interest expense	\$ 9,402	\$ 20,129
D&B Entertainment note interest accretion		8,341
Amortization of issuance cost and discount	696	1,962
Gain on early collection of a note receivable	(493)	
Interest income	(212)	(204)
Less capitalized interest	(452)	(402)
Change in fair value of interest rate cap	116	
Total interest expense, net	\$ 9,057	\$ 29,826

During fiscal 2015, a note receivable, with an outstanding principal balance of \$1,220, was fully collected prior to the scheduled repayment terms. The carrying value of the note was \$727, net of discount. Interest expense for the year includes a \$493 gain related to the collection of the note receivable.

We are exposed to interest rate risk arising from changes in interest rates due to the variable rate indebtedness under our Credit Facility. In October 2015, the Company purchased an interest rate cap agreement for \$920 with a notional amount of \$200,000 to manage our exposure to interest rate movements on our variable rate Credit Facility when one-month LIBOR exceeds 3.0%. The effective date of the interest rate cap agreement is October 7, 2015, and the agreement matures on October 7, 2019. We have not designated the interest rate cap as a hedge for accounting purposes. Accordingly, changes in the fair value of the interest rate cap are recognized as interest expense. The Company's investment in the interest rate cap, with a fair value of \$804 at November 1, 2015, is included in other assets on the balance sheet and was valued using an analysis based on market observable inputs, representing Level

Two assets as defined by GAAP. The fair value of the Company's interest rate cap represents the amount the Company would receive to terminate the contract. For the thirteen and thirty-nine weeks ending November 1, 2015, interest expense includes \$116 related to the change in the fair value of the interest rate cap since purchase.

**Table of Contents****Note 4: Income Taxes**

The following table sets forth our provision (benefit) for income taxes for the periods indicated:

	<b>Thirteen Weeks</b>	<b>Thirteen Weeks</b>
	<b>Ended</b>	<b>Ended</b>
	<b>November 1, 2015</b>	<b>November 2, 2014</b>
<b>Current provision (benefit):</b>		
Federal	\$ 4,371	\$ 399
State and local	829	842
Foreign	(89)	(3)
Deferred benefit	(2,390)	(3,445)
Total provision (benefit) for income taxes	\$ 2,721	\$ (2,207)
	<b>Thirty-Nine Weeks</b>	<b>Thirty-Nine Weeks</b>
	<b>Ended</b>	<b>Ended</b>
	<b>November 1, 2015</b>	<b>November 2, 2014</b>
<b>Current provision (benefit):</b>		
Federal	\$ 17,120	\$ 1,381
State and local	4,335	1,953
Foreign	116	237
Deferred benefit	(2,145)	(8,065)
Total provision (benefit) for income taxes	\$ 19,426	\$ (4,494)

At November 1, 2015, we had a valuation allowance of \$842 against our deferred tax assets. The ultimate realization of our deferred tax assets is dependent on the generation of future taxable income in the jurisdiction and during periods in which temporary differences become deductible. In assessing the realizability of our deferred tax assets, we considered whether it is more likely than not that some or all of the deferred tax assets will not be realized. Based on the level of recent historical taxable income; consistent generation of annual taxable income, and estimations of future taxable income we have concluded that it is more likely than not that we will realize the federal tax benefits associated with our deferred tax assets. We assessed the realizability of the deferred tax assets associated with state taxes, foreign taxes and uncertain tax positions and have concluded that it is more likely than not that we will realize only a portion of these benefits. Accordingly, we have established a valuation allowance to reduce those deferred tax assets to an amount which we believe will ultimately be realized.

As of November 1, 2015, we had \$2,465 remaining available federal tax credit carryovers, including \$2,402 of general business credits and \$63 of Alternative Minimum Tax ( AMT ) credit carryovers, and \$49,336 of state net operating loss carryforwards. There is a 20 year carry-forward on general business credits and AMT credits can be carried

forward indefinitely. The general business credits do not begin to expire until 2030 and are expected to be utilized in fiscal 2015 based on current enacted tax laws. As of November 1, 2015, we have no federal net operating loss carryforwards. Generally, state net operating losses can be carried forward 20 years. State net operating loss carryforwards do not begin to expire until 2024. As of November 1, 2015, we could not conclude that it was more likely than not that all of our state net operating loss carryforwards, when considered on a state by state basis, will be fully utilized prior to their expiration. Included in our total valuation allowance is \$637 related to state net operating losses that may not be realized.

As of November 1, 2015 and November 2, 2014, the accrued interest and penalties on the unrecognized tax benefits were \$388 and \$316, respectively, excluding any related income tax benefits. The Company recorded accrued interest related to the unrecognized tax benefits and penalties as a component of the provision for income taxes recognized in the Consolidated Statements of Comprehensive Income (Loss).



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We currently anticipate that approximately \$14 of unrecognized tax benefits will be settled through federal and state audits or will be recognized as a result of the expiration of statute of limitations during fiscal 2015. Future recognition of potential interest or penalties, if any, will be recorded as a component of income tax expense. Because of the impact of deferred tax accounting, \$933 of unrecognized tax benefits, if recognized, would affect the effective tax rate.

We file a consolidated income tax return with all our domestic subsidiaries, which are periodically audited by various federal, state and foreign jurisdictions. We are generally no longer subject to federal, state, or foreign income tax examinations for years prior to 2010.

**Note 5: 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.

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 November 1, 2015:

1 year or less	\$ 71,437
2 years	71,087
3 years	68,133
4 years	63,881
5 years	56,431
Thereafter	469,134
<b>Total future payments</b>	<b>\$ 800,103</b>

As of November 1, 2015 our signed operating lease agreements included our stores in Friendswood (Houston), Texas and Glendale (Phoenix), Arizona which opened for business on November 16, 2015 and November 23, 2015, respectively. We also have signed operating lease agreements for future sites located in San Antonio, Texas and Springfield (Greater DC), Virginia which are expected to open in the fourth quarter of fiscal 2015 and future sites in Capitol Heights (Baltimore), Maryland, Henrietta (Rochester), New York and El Paso, Texas which are expected to open in the first half of fiscal 2016. 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 November 1, 2015, we have signed twelve additional 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.

During the third quarter of fiscal 2015, we purchased two tracts of land for future sites in Florence, Kentucky and Little Rock, Arkansas which are expected to open in the first half of fiscal 2016. The combined purchase price of \$7,288 is included in property and equipment.

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

Basic earnings per share ( EPS ) represents net income divided by the weighted average number of common shares outstanding during the period. Diluted EPS represents net income divided by the basic weighted average number of common shares plus, if dilutive, potential common shares outstanding during the period. Potential common shares consist of incremental common shares issuable upon the exercise of outstanding stock options or the fulfillment of restricted and performance share vesting conditions. The dilutive effect of potential common shares is determined using the treasury stock method, whereby outstanding stock options are assumed exercised at the beginning of the reporting period and the exercise proceeds from such stock options, the average measured but unrecognized compensation cost during the period and certain tax benefits that will be credited to additional paid-in capital upon exercise are assumed to be used to repurchase our common stock at the average market price during the period.

The following tables set forth the computation of EPS, basic and diluted for the periods indicated:

	<b>Thirteen Weeks Ended November 1, 2015</b>	<b>Thirteen Weeks Ended November 2, 2014</b>
<b>(in thousands, except share and per share data)</b>		
<b>Numerator:</b>		
Net income (loss)	\$ 4,554	\$ (4,607)
<b>Denominator:</b>		
Basic weighted average common shares outstanding	41,241,274	34,881,763
Effect of dilutive common shares for equity-based awards	1,697,228	
Diluted weighted average common shares outstanding	42,938,502	34,881,763
<b>Net income (loss) per share:</b>		
Basic	\$ 0.11	\$ (0.13)
Diluted	\$ 0.11	\$ (0.13)

	<b>Thirty-Nine Weeks Ended November 1, 2015</b>	<b>Thirty-Nine Weeks Ended November 2, 2014</b>
<b>(in thousands, except share and per share data)</b>		
<b>Numerator:</b>		
Net income (loss)	\$ 36,669	\$ (7,024)
<b>Denominator:</b>		
Basic weighted average common shares outstanding	40,775,253	33,763,436
Effect of dilutive common shares for equity-based awards	1,902,554	
Diluted weighted average common shares outstanding	42,677,807	33,763,436
<b>Net income (loss) per share:</b>		
Basic	\$ 0.90	\$ (0.21)

Diluted	\$	0.86	\$	(0.21)
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We had approximately 3,160,844 and 4,441,257 time-based and vested performance-based stock option awards outstanding under our stock option plans as of November 1, 2015 and November 2, 2014, respectively, which were included in the computation of dilutive common shares. Unvested performance-based stock options under our stock option plans were not included in the calculation of dilutive common shares as they did not meet the criteria for inclusion per GAAP guidance.

**Note 7: Equity-based Compensation**

As of November 1, 2015, options to purchase 3,160,844 shares of common stock were outstanding, of which 2,231,941 were vested and 928,903 were unvested. Current unvested options vest over time.

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.

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For the thirteen and thirty-nine weeks ended November 1, 2015, there were exercises of stock options for 378,544 and 1,531,850 shares, respectively. For the thirteen and thirty-nine weeks ended November 1, 2015, there were forfeitures of stock options for 5,032 shares. There were no stock option grants in the thirteen weeks ended November 1, 2015 and stock option grants of 258,709 in the thirty-nine weeks ended November 1, 2015. All stock options granted during fiscal 2015 are time-based options. There were restricted stock grants during the first quarter of 2015, which included 10,799 time-based shares granted to certain Board of Director members and 60,942 performance-based restricted stock units granted to management and certain other employees of the Company. During the thirteen and thirty-nine weeks ended November 1, 2015 there were forfeitures of performance-based restricted stock units for 1,218 shares.

Restricted shares vest over time or upon the Company achieving certain financial goals. We base the amount of unearned compensation recorded for restricted shares on the market value of the shares on the date of issuance. As of November 1, 2015, we had total unrecognized compensation expense of \$6,126, related to unvested stock options and restricted shares, which we expect to recognize over a weighted-average period of 2.2 years.

Total stock-based compensation expense was \$969 and \$1,361 for the thirteen weeks ended November 1, 2015 and November 2, 2014 and was \$2,590 and \$1,864 for the thirty-nine weeks ended November 1, 2015 and November 2, 2014, respectively.

### ***2014 Stock Incentive Plan***

The 2014 Omnibus Incentive Plan ( 2014 Stock Incentive Plan ) allows the granting of incentive and nonqualified stock options, stock appreciation rights, restricted stock, other stock-based awards and cash-based awards to employees, directors, and consultants of the Company. The maximum number of shares of common stock issuable under the 2014 Stock Incentive Plan is 3,100,000 shares. The term of service-based stock options is determined at the date of grant. Performance-based stock options can be based upon a variety of performance measures as defined in the plan document. Each award agreement will specify the effect of a holder's termination of employment with, or service for, the Company. Options granted under the 2014 Stock Incentive Plan terminate on the ten-year anniversary of the date of grant.

### ***2010 Stock Incentive Plan***

The Dave & Buster's Entertainment, Inc. 2010 Management Incentive Plan ( 2010 Stock Incentive Plan ) provided for the granting of options to acquire stock in D&B Entertainment to certain of our employees, outside directors and consultants. The options are subject to either time-based vesting or performance-based vesting. Options granted under the 2010 Stock Incentive Plan terminate on the ten-year anniversary of the date of grant. All performance-based options outstanding prior to our IPO were vested in connection with our IPO. Upon adoption of the 2014 Stock Incentive Plan, no further grants are permitted under the 2010 Stock Incentive Plan.

Additionally as a result of the IPO, all stock option awards granted prior to the IPO were adjusted to affect the 224.9835679 for 1 stock split on both number of outstanding options and the exercise price.

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**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). Unless otherwise specified, the meaning of all defined terms in Management's Discussion and Analysis are consistent with the meanings of such terms as defined in the Notes to 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 (the Securities Act) 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 or other variations or comparative terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this quarterly 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 7, 2015. 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. 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 *Fun American New Gourmet* 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 44,000 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.

As of November 1, 2015, the Company had a total of 41,511,877 common shares outstanding (consisting of 41,501,078 common shares and 10,799 unvested restricted shares). No preferred shares were issued or outstanding. Oak Hill Capital Partners III, L.P. and Oak Hill Capital Management Partners, III, L.P. (collectively, the Oak Hill Funds) own approximately 24.1% of our outstanding stock and certain members of our Board of Directors and our management control approximately 0.9% of our outstanding common stock. The remaining 75.0% is owned by the

public.

Dave & Buster's Entertainment, Inc. ( D&B Entertainment ) has no material assets or operations other than 100% ownership of the outstanding common stock of Dave & Buster's Holdings, Inc. ( D&B Holdings ). D&B Holdings has no material assets or operations other than 100% ownership of the outstanding common stock of Dave & Buster's, Inc. ( D&B Inc ). As such, the following discussion, unless specifically identified otherwise, addresses the operations of D&B Inc.

### **Our Growth Strategies and Outlook**

Our growth is based primarily on the following strategies:

Pursue new store growth;

Grow our comparable stores sales; and

Expand the Dave & Buster's brand internationally.

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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 approximately 10% of our existing stores. During the first thirty-nine weeks of fiscal 2015, the Company opened six new stores including the relocation of an existing store in Williamsville (Buffalo), New York to a new site in the same market. As of November 1, 2015, there were 77 stores in the United States and Canada. Subsequent to the end of our third quarter, we opened new stores in Friendswood (Houston), Texas on November 16, 2015 and Glendale (Phoenix), Arizona on November 23, 2015 and plan to open an additional 2 stores in fiscal 2015. To increase comparable store sales we plan to provide our customers with the latest exciting games by updating approximately 10% of our games each year, leverage the D&B Sports concept by building awareness through national cable advertising and drive customer frequency by enhancing the in-store and out-of-store customer experience via digital and mobile strategic initiatives.

We believe that in addition to the growth potential that exists in North America, the Dave & Buster's brand can also have significant appeal in certain international markets. We have recently signed a seven store franchise agreement for licensed development in the Middle East, which includes six countries, and we are targeting our first international opening outside of Canada in 2017.

We believe that we are well positioned for growth with a corporate infrastructure 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 Events**

In October 2014, we amended and restated our certificate of incorporation to increase our authorized share count to 450,000,000 shares of stock, including 400,000,000 shares of common stock and 50,000,000 shares of preferred stock, each with a par value of \$0.01 per share and to split our common stock 224.9835679 for 1. Additionally, we completed our initial public offering, (the "IPO") of 6,764,705 shares of common stock at a price of \$16.00 per share. Unless otherwise noted herein, historic share data has been adjusted to give effect to the stock split.

In February 2015, we completed a follow-on offering of a total of 7,590,000 shares of our common stock (including the underwriters overallotment option of 990,000 shares) at a price of \$29.50 per share. All of these shares were offered by the selling stockholders. In connection with the offering, 300,151 options were exercised at a weighted average price of \$4.49. We issued new shares in satisfaction of this exercise. We received \$1,346 upon the exercise of options which were sold as part of this offering.

On May 15, 2015, we entered into a new senior secured credit facility that provides a \$150,000 term loan facility and a \$350,000 revolving credit facility (the "Credit Facility"). The proceeds of the Credit Facility were used to refinance in full the balance of a prior credit facility of \$430,000 (the "July 2014 credit facility") and to pay related interest and expenses. As a result of the refinancing, we expect to have lower interest expense.

In May 2015, we completed a follow-on offering of 9,775,000 shares of our common stock (including the underwriters overallotment option of 1,275,000 shares) at a price of \$31.50 per share. All of these shares were offered by the selling stockholders. In connection with the offering, 853,155 options were exercised at a weighted average price of \$4.46. We issued 604,743 new shares and utilized 248,412 treasury shares, in satisfaction of this exercise. We received \$3,809 upon the exercise of options which were sold as part of this offering.



On September 30, 2015, we completed a follow-on offering of 6,900,000 shares of our common stock (including the underwriters overallotment option of 900,000 shares) at a price of \$37.00 per share. All of these shares were offered by the selling stockholders. In connection with the offering, 366,476 options were exercised at a weighted average price of \$4.46. We issued new shares in satisfaction of this exercise. We received \$1,633 upon the exercise of options which were sold as part of this offering.

### **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 opened 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 stores consisted of 59 and 57 stores as of November 1, 2015 and November 2, 2014, respectively. Comparable store sales for the thirteen and thirty-nine weeks ended November 1, 2015 exclude sales from our Williamsville (Buffalo), New York location, which closed and relocated in the third quarter of fiscal 2015, and our Farmingdale (Long Island), New York ( Farmingdale ) location, which permanently closed on February 8, 2015. Fiscal 2014 comparable store sales exclude sales from our Kensington/Bethesda, Maryland ( Bethesda ) location, which permanently closed on August 12, 2014.

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***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.

Our new locations typically open with sales volumes in excess of their run-rate levels, which we refer to as a honeymoon effect. We expect our new store volumes in year two to be 15% to 20% lower and our Store-level Adjusted EBITDA margins to be two to five percentage points lower in the second full year of operations 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 and the seasonality of our business, the number and timing of new store openings will result in significant fluctuations in quarterly results.

## **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 Store-level EBITDA, Store-level EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin. 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. Because Adjusted EBITDA does not account for these expenses, its utility as a measure of our operating performance has material limitations. In addition, Adjusted EBITDA excludes pre-opening costs and adjustments for changes in the accruals for deferred amusement revenue and ticket liability, which we expect customers to redeem in future periods and which may be important in analyzing our GAAP results. 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 current underlying business of our stores and therefore complicate comparison of underlying business between periods. Because of the limitations described above management does not view Adjusted EBITDA in isolation and also uses other measures, such as net sales, gross margin, operating income and net income (loss), to measure operating performance.

***Store-level EBITDA and Store-level EBITDA Margin*** We define Store-level EBITDA as net income (loss), plus interest expense, net, loss on debt retirement, provision (benefit) for income taxes, depreciation and amortization expense, general and administrative expenses and pre-opening costs. Store-level EBITDA Margin is defined as Store-level EBITDA divided by total revenues. Store-level EBITDA Margin allows us to evaluate operating performance of each store across stores of varying size and volume.

We believe that Store-level EBITDA 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 performance of our stores for the periods presented. We also believe that Store-level EBITDA 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-level EBITDA 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 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.

***Adjusted EBITDA and Adjusted EBITDA Margin*** We define Adjusted EBITDA as net income (loss), plus interest expense, net, loss on debt retirement, provision (benefit) for income taxes, depreciation and amortization expense, loss on asset disposal, share-based compensation, currency transaction (gain) loss, pre-opening costs, reimbursement of affiliate and other expenses, change in deferred amusement revenue and ticket liability estimations, transaction costs and other. 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 regarding our operating performance and our capacity to incur and service debt and fund capital expenditures. We believe that Adjusted EBITDA is used by many investors, analysts and rating agencies as a measure of performance. In addition, Adjusted EBITDA is approximately equal to EBITDA as defined in our Credit Facility and our presentation of Adjusted EBITDA is consistent with that reported to our lenders

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to allow for leverage-based assessments. 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. Adjusted EBITDA is a metric historically utilized to measure performance-based bonuses paid to our executive officers and certain managers.

## **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 quarter consists of 13 weeks, except for a 53 week year when the fourth quarter consists of 14 weeks. All references to the third quarter of 2015 relate to the 13 week period ended November 1, 2015. All references to the third quarter of 2014 relate to the 13 week period ended November 2, 2014. All references to the year-to-date fiscal 2015 period relate to the thirty-nine week period ended November 1, 2015. All references to the year-to-date fiscal 2014 period relate to the thirty-nine week period ended November 2, 2014. Both our 2015 fiscal year and 2014 fiscal year consist of 52 weeks. All dollar amounts are presented in thousands, except share and per share amounts.

## **Key Line Item Descriptions**

**Revenues** Total revenues consist of food and beverage revenues as well as amusement and other revenues. Beverage revenues refer to alcoholic beverages. For the thirteen weeks ended November 1, 2015, we derived 31.2% of our total revenue from food sales, 15.4% from beverage sales, 52.7% from amusement sales and 0.7% from other sources. For the thirty-nine weeks ended November 1, 2015, we derived 31.3% of our total revenue from food sales, 14.9% from beverage sales, 53.0% from amusement sales and 0.8% from other sources. Our revenue growth is primarily influenced by the number of new store openings and growth in comparable store revenues. Comparable store revenue growth reflects the change in year-over-year revenue for the comparable store base and is an important measure of store performance. Comparable store sales growth can be generated by increases in average dollars spent per customer and improvements in customer traffic.

We continually monitor the success of current food and beverage items, the availability of new menu offerings, the menu price structure and our ability to adjust prices where competitively appropriate. With respect to the beverage component, we operate fully licensed facilities, which means that we offer full beverage service, including alcoholic beverages, throughout each store.

Our stores offer an extensive array of amusements and entertainment options, with typically over 150 redemption and simulation games. We also offer traditional pocket billiards and shuffleboard. Redemption games offer our customers the opportunity to win tickets that can be redeemed for prizes in the Winner's Circle, ranging from branded novelty items to high-end home electronics. Our redemption games include basic games of skill, such as skeeball and basketball, as well as competitive racing, and individual electronic games of skill. We review the amount of game play on existing amusements in an effort to match amusements availability with customer preferences. We intend to continue to invest in new games as they become available and prove to be attractive to our customers. Our unique venue allows us to provide our customers with value driven food and amusement combination offerings including our Eat & Play Combo (a promotion that provides a discounted Power Card in combination with select entrées), Super Charge Power Card offerings (when purchasing or adding value to a Power Card, the customer is given the opportunity to add more chips to the Power Card at a lower cost per chip amount), Half-Price Game Play (every Wednesday, from open to close, we reduce the price of every game in the Midway by one-half), and Everyone's a Winner (a limited-time offer providing a prize to every customer that purchases or adds value to a Power Card in the amount of \$10 or more). We also offer various food and beverage discounts during key sports viewing times. In addition, from time to time we have limited time offers which allow our customers to play certain new games for free as a way to introduce those new games.

Our D&B Sports concept, currently incorporated in approximately 70% of our store base, provides an attractive opportunity to market our broader platform to new and existing customers through a year-round calendar of programming and promotions tied to popular sporting events and sport-related activities. Large television screens, comfortable seating, a full menu of food and beverages and artwork often featuring images of local sports teams and sports icons help create an exciting environment for watching sports programming.

The special events portion of our business represented 9.2% of our total revenues for the thirty-nine weeks ended November 1, 2015. We believe our special events business is an important sampling and promotional opportunity for our customers because many customers are experiencing Dave & Buster's for the first time. Accordingly, a considerable emphasis is placed on the special events portion of our business.

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**Cost of products** Cost of products includes the cost of food, beverages and the Winner's Circle redemption items. For the thirteen weeks ended November 1, 2015, the cost of food products averaged 27.4% of food revenue and the cost of beverage products averaged 23.9% of beverage revenue. The amusement and other cost of products averaged 12.5% of amusement and other revenues. For the thirty-nine weeks ended November 1, 2015, the cost of food products averaged 27.2% of food revenue and the cost of beverage products averaged 23.7% of beverage revenue. The amusement and other cost of products averaged 12.8% of amusement and other revenues. The cost of products is driven by product mix and pricing movements from third-party suppliers. We continually strive to gain efficiencies in both the acquisition and use of products while maintaining high standards of product quality.

**Operating payroll and benefits** Operating payroll and benefits consist of wages, employer taxes and benefits for store personnel. We continually review the opportunity for efficiencies, principally through scheduling refinements.

**Other store operating expenses** Other store operating expenses consist primarily of store-related occupancy, supply and outside service expenses, utilities, repair and maintenance and marketing and promotional costs.

**General and administrative expenses** General and administrative expenses consist primarily of personnel, facilities and professional expenses for the various departments of our corporate headquarters.

**Depreciation and amortization expense** Depreciation and amortization expense includes the depreciation of property and equipment and the amortization of trademarks with finite lives.

**Pre-opening costs** Pre-opening costs include costs associated with the opening and organizing of new stores, including pre-opening rent (rent expense recognized during the period between date of possession and the store's opening date), staff training and recruiting, and travel costs for employees engaged in such pre-opening activities.

**Interest expense** Interest expense includes the cost of our debt obligations including the amortization of loan fees and original issue discounts, net of any interest income earned or interest expense capitalized and the change in the fair value of the interest rate cap.

**Loss on debt retirement** Loss on debt retirement consists of the write-off of unamortized loan costs and other fees associated with the refinancing of our debt.

**Provision (benefit) for income taxes** Provision (benefit) for income taxes represents current and deferred income taxes for federal, state, and foreign.

## **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.

We also expect seasonality to be a factor in the operation or results of the business in the future with 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 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 volatile economic conditions 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 or state minimum wage rates will not increase beyond amounts currently legislated, the effects of any supplier price increases or minimum wage rate increases are expected to be partially offset by selected menu price increases where competitively appropriate.

**Table of Contents****Thirteen Weeks Ended November 1, 2015 Compared to Thirteen Weeks Ended November 2, 2014**

**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 consolidated statements of comprehensive income (loss).

	<b>Thirteen Weeks Ended November 1, 2015</b>		<b>Thirteen Weeks Ended November 2, 2014</b>	
Food and beverage revenues	\$ 89,826	46.6%	\$ 78,179	47.8%
Amusement and other revenues	102,927	53.4	85,295	52.2
<b>Total revenues</b>	<b>192,753</b>	<b>100.0</b>	<b>163,474</b>	<b>100.0</b>
Cost of food and beverage (as a percentage of food and beverage revenues)	23,575	26.2	20,249	25.9
Cost of amusement and other (as a percentage of amusement and other revenues)	12,842	12.5	12,091	14.2
Total cost of products	36,417	18.9	32,340	19.8
Operating payroll and benefits	48,048	24.9	41,237	25.2
Other store operating expenses	63,762	33.1	56,298	34.4
General and administrative expenses	12,640	6.6	11,393	7.0
Depreciation and amortization expense	20,032	10.4	17,648	10.8
Pre-opening costs	2,395	1.2	3,650	2.2
<b>Total operating costs</b>	<b>183,294</b>	<b>95.1</b>	<b>162,566</b>	<b>99.4</b>
Operating income	9,459	4.9	908	0.6
Interest expense, net	2,184	1.1	6,130	3.8
Loss on debt retirement			1,592	1.0
Income (loss) before provision (benefit) for income taxes	7,275	3.8	(6,814)	(4.2)
Provision (benefit) for income taxes	2,721	1.4	(2,207)	(1.4)
Net income (loss)	\$ 4,554	2.4%	\$ (4,607)	(2.8)%
Change in comparable store sales (1)		8.8%		8.7%
Company owned stores open at end of period (2)		77		70
Comparable stores open at end of period (1)		59		57

- (1) Comparable store sales (year-over-year comparison of stores operating at the end of the fiscal period and open at least 18 months as of the beginning of each of the fiscal years) 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. Fiscal 2015 comparable stores exclude our Williamsville (Buffalo), New York location, which closed



and relocated during the third quarter of fiscal 2015, and our Farmingdale location, which permanently closed on February 8, 2015. Fiscal 2014 comparable stores exclude our Bethesda location, which permanently closed on August 12, 2014.

- (2) Our fiscal 2015 store count excludes our Williamsville, Farmingdale and Bethesda locations. Our Fiscal 2014 store count excludes our Bethesda location.

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

The following table reconciles Net income (loss) to EBITDA and Adjusted EBITDA for the periods indicated:

	<b>Thirteen Weeks Ended November 1, 2015</b>	<b>Thirteen Weeks Ended November 2, 2014</b>
Net income (loss)	\$ 4,554	\$ (4,607)
Interest expense, net	2,184	6,130
Loss on debt retirement		1,592
Provision (benefit) for income tax	2,721	(2,207)
Depreciation and amortization expense	20,032	17,648
<b>EBITDA</b>	<b>29,491</b>	<b>18,556</b>
Loss on asset disposal <sup>(1)</sup>	296	645
Currency transaction loss <sup>(2)</sup>	8	16
Reimbursement of affiliate and other expenses <sup>(3)</sup>	10	169
Transaction and other costs <sup>(4)</sup>	915	355
Share-based compensation <sup>(5)</sup>	969	1,361
Pre-opening costs <sup>(6)</sup>	2,395	3,650
Change in deferred amusement revenue and ticket liability <sup>(7)</sup>	414	(169)
<b>Adjusted EBITDA</b>	<b>\$ 34,498</b>	<b>\$ 24,583</b>
<b>Adjusted EBITDA Margin</b>	<b>17.9%</b>	<b>15.0%</b>

(1) Represents the net book value of assets (less proceeds received) disposed of during the period. Primarily relates to assets replaced in the ongoing operation of business.

(2) Represents the effect of foreign currency transaction losses related to our store in Canada.

(3) Represents expenses incurred to reimburse our Board of Directors and certain non-recurring payments to management and compensation consultants.

(4) Primarily represents costs related to capital market transactions and store closure costs.

(5) Represents stock compensation expense under our 2010 Stock Incentive Plan and 2014 Stock Incentive Plan.

(6) Represents costs incurred prior to the opening of our new stores.

(7) Represents increases or (decreases) to accrued liabilities established for future amusement games play and the fulfillment of tickets won by customers on our redemption games.

**Reconciliations of Non-GAAP Financial Measures Store-level EBITDA**

The following table reconciles EBITDA to Store-level EBITDA for the periods indicated:

	<b>Thirteen Weeks Ended November 1, 2015</b>	<b>Thirteen Weeks Ended November 2, 2014</b>
EBITDA	\$ 29,491	\$ 18,556
General and administrative expenses	12,640	11,393
Pre-opening costs	2,395	3,650
Store-level EBITDA	\$ 44,526	\$ 33,599
Store-level EBITDA Margin	23.1%	20.6%

**Table of Contents****Capital additions**

The following table represents total accrual-based additions to property and equipment. Capital additions do not include any reductions for tenant improvement allowances received or receivable from landlords.

	<b>Thirteen Weeks Ended November 1, 2015</b>	<b>Thirteen Weeks Ended November 2, 2014</b>
New stores	\$ 33,204	\$ 32,951
Operating initiatives, including remodels	2,991	2,035
Games	1,152	561
Maintenance capital	4,281	3,595
<b>Total capital additions</b>	<b>\$ 41,628</b>	<b>\$ 39,142</b>
Tenant improvement allowances	\$ 9,073	\$ 7,401

***Revenues***

Total revenues increased \$29,279, or 17.9%, in the third quarter of 2015 compared to the third quarter of 2014.

The increased revenues were derived from the following sources:

Comparable stores	\$ 12,333
Non-comparable stores	16,830
Other	116
<b>Total</b>	<b>\$ 29,279</b>

Comparable store revenue increased \$12,333, or 8.8%, in the third quarter of 2015 compared to the third quarter of 2014. Comparable store walk-in revenues, which accounted for 90.1% of consolidated comparable store revenue in the third quarter of 2015, increased \$11,764, or 9.4% compared to the third quarter of 2014. Comparable store special events revenues, which accounted for 9.9% of consolidated comparable store revenue in the third quarter of 2015, increased \$569 or 3.9% compared to the third quarter of 2014. The increase in comparable store revenue over prior year can be credited to many factors including expanded customer appeal as a result of our remodeling initiatives, the addition of and focus on sports viewing, and media efficiencies which encompass the success of our New News program, which features our new offerings in each of the Eat Drink Play and Watch pillars through national advertising.

Food sales at comparable stores increased by \$3,234, or 7.3%, to \$47,845 in the third quarter of 2015 from \$44,611 in the third quarter of 2014. Beverage sales at comparable stores increased by \$918, or 4.1%, to \$23,499 in the third quarter of 2015 from \$22,581 in the third quarter of 2014. Comparable store amusement and other revenues in the third quarter of 2015 increased by \$8,181, or 11.2%, to \$81,007 from \$72,826 in the third quarter of 2014. The growth over 2014 in amusement sales was driven by national advertising which highlighted our games.

Non-comparable store revenue increased \$16,830, or 72.7%, in the third quarter of 2015 compared to the third quarter of 2014. The increase in non-comparable store revenue was primarily driven by 118 additional store weeks contributed by our 2014 and 2015 openings compared to fiscal 2014, and partially offset by a decrease in revenue due to the closure of our Bethesda and Farmingdale locations on August 12, 2014 and February 8, 2015, respectively.

Our revenue mix was 31.2% for food, 15.4% for beverage, and 53.4% for amusements and other for the third quarter of 2015. This compares to 31.8%, 16.0%, and 52.2%, respectively, for the third quarter of 2014.

***Cost of products***

The total cost of products was \$36,417 for the third quarter of fiscal 2015 and \$32,340 for the third quarter of fiscal 2014. The total cost of products as a percentage of total revenues was 18.9% and 19.8% for the third quarter of fiscal 2015 and third quarter of fiscal 2014, respectively.

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Cost of food and beverage products increased to \$23,575 in the third quarter of 2015 compared to \$20,249 in the third quarter of 2014 due primarily to the increased sales volume. Cost of food and beverage products, as a percentage of food and beverage revenues, increased 30 basis points to 26.2% for the third quarter of 2015 from 25.9% for the third quarter of 2014. The increase in the cost of food and beverage as a percentage of revenues is primarily due to increased cost in our meat and poultry categories partially offset by savings in seafood.

Cost of amusement and other increased to \$12,842 in the third quarter of 2015 compared to \$12,091 in the third quarter of 2014. The costs of amusement and other, as a percentage of amusement and other revenues decreased 170 basis points to 12.5% for the third quarter of 2015 from 14.2% for the third quarter of 2014. This decrease was due to a shift in game play from redemption to simulation and supplies savings resulting from the company wide rollout of our e-ticket initiative. The e-ticket option allows customers to have tickets won from game play stored automatically on their Power Cards instead of receiving paper tickets. Cost reductions resulting from this initiative were partially offset by an increase in accrued liabilities established for future fulfillment of tickets won by customers on our redemption games.

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

Operating payroll and benefits increased by \$6,811 or 16.5%, to \$48,048 in the third quarter of 2015 compared to \$41,237 in the third quarter of 2014, primarily due to new store openings and increased incentive compensation for performance. The total cost of operating payroll and benefits, as a percent of total revenues, decreased 30 basis points to 24.9% for the third quarter of 2015 from 25.2% in the third quarter of 2014 as a result of leverage on increased sales.

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

Other store operating expenses increased by \$7,464, or 13.3%, to \$63,762, in the third quarter of 2015 compared to \$56,298 in the third quarter of 2014, primarily due to new store openings. Other store operating expenses as a percentage of total revenues decreased 130 basis points to 33.1% in the third quarter of 2015 compared to 34.4% for the same period of 2014, due primarily to favorable leverage of operating costs on increased revenue.

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

General and administrative expenses increased by \$1,247, or 10.9%, to \$12,640 in the third quarter of 2015 compared to \$11,393 in the third quarter of 2014. The increase in general and administrative expenses was primarily driven by professional fees associated with post-IPO public company costs and international development initiatives. General and administrative expenses, as a percentage of total revenues, decreased 40 basis points to 6.6% in the third quarter of 2015 compared to 7.0% in the same period of 2014, primarily due to the leveraging impact of higher store sales.

### ***Depreciation and amortization expense***

Depreciation and amortization expense increased by \$2,384, or 13.5%, to \$20,032 in the third quarter of 2015 compared to \$17,648 in the third quarter of 2014. Increased depreciation due to our 2014 and 2015 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 decreased by \$1,255 to \$2,395 in the third quarter of 2015 compared to \$3,650 in the third quarter of 2014 due to the number and timing of new store openings.

***Interest expense***

Interest expense decreased by \$3,946 to \$2,184 in the third quarter of 2015 compared to \$6,130 in the third quarter of 2014 due to the May 2015 refinancing and the use of IPO proceeds to repay debt in October 2014, described in Liquidity and Capital Resources and Cash Flows .

***Loss on debt retirement***

In the third quarter of 2014 the Company wrote off \$1,586 in unamortized debt costs related to the use of IPO proceeds and available cash balances to repay \$100,000 principal amount of our July 2014 credit facility and recorded \$6 in additional legal expenses.

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***Income tax provision (benefit)***

Income tax provision for the third quarter of fiscal 2015 was \$2,721 compared to an income tax benefit of \$2,207 for the third quarter of fiscal year 2014. Our effective tax rate differs from the statutory rate 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.

As of November 1, 2015, we had \$2,465 remaining available federal tax credit carryovers, including \$2,402 of general business credits and \$63 of Alternative Minimum Tax ( AMT ) credit carryovers, and \$49,336 of state net operating loss carryforwards. There is a 20-year carry-forward on general business credits and AMT credits can be carried forward indefinitely. The general business credits do not begin to expire until 2030 and are expected to be utilized in 2015 based on current enacted tax laws. As of November 1, 2015, we have no federal net operating loss carryforwards. Generally, state net operating losses can be carried forward 20 years. State operating loss carryforwards do not begin to expire until 2024. As of November 1, 2015, we could not conclude that it was more likely than not that all of our state net operating loss carryforwards, when considered on a state by state basis, will be fully utilized prior to their expiration. Included in our total valuation allowance is \$637 related to state net operating losses that may not be realized.

According to ASC 740, Accounting for Uncertainty in Income Taxes, the recognition of income tax benefits is limited to those items that meet the more likely than not threshold on the effective date. As of November 1, 2015, we have accrued approximately \$1,059 of unrecognized tax benefits and approximately \$388 of penalties and interest. During the third quarter of fiscal 2015, we increased our unrecognized provision by \$189 and increased our accrual for interest and penalties by \$17. Because of the impact of deferred tax accounting, \$933 of unrecognized tax benefits, if recognized, would affect the effective tax rate.

We file a consolidated income tax return with all our domestic subsidiaries, which are periodically audited by various federal, state and foreign jurisdictions. We are generally no longer subject to federal, state, or foreign income tax examinations for years prior to fiscal 2010.



**Table of Contents****Thirty-nine Weeks Ended November 1, 2015 Compared to Thirty-nine Weeks Ended November 2, 2014**

**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 consolidated statements of comprehensive income (loss).

	<b>Thirty-Nine Weeks Ended November 1, 2015</b>		<b>Thirty-Nine Weeks Ended November 2, 2014</b>	
Food and beverage revenues	\$ 292,604	46.2%	\$ 256,077	47.4%
Amusement and other revenues	340,163	53.8	283,605	52.6
<b>Total revenues</b>	<b>632,767</b>	<b>100.0</b>	<b>539,682</b>	<b>100.0</b>
Cost of food and beverage (as a percentage of food and beverage revenues)	76,235	26.1	65,939	25.7
Cost of amusement and other (as a percentage of amusement and other revenues)	43,682	12.8	39,335	13.9
Total cost of products	119,917	19.0	105,274	19.5
Operating payroll and benefits	147,121	23.3	126,357	23.4
Other store operating expenses	188,769	29.7	170,440	31.6
General and administrative expenses	38,985	6.2	31,462	5.8
Depreciation and amortization expense	58,247	9.2	52,321	9.7
Pre-opening costs	7,754	1.2	7,942	1.5
<b>Total operating costs</b>	<b>560,793</b>	<b>88.6</b>	<b>493,796</b>	<b>91.5</b>
Operating income	71,974	11.4	45,886	8.5
Interest expense, net	9,057	1.4	29,826	5.5
Loss on debt retirement	6,822	1.1	27,578	5.1
Income (loss) before provision (benefit) for income taxes	56,095	8.9	(11,518)	(2.1)
Provision (benefit) for income taxes	19,426	3.1	(4,494)	(0.8)
<b>Net income (loss)</b>	<b>\$ 36,669</b>	<b>5.8%</b>	<b>\$ (7,024)</b>	<b>(1.3)%</b>
Change in comparable store sales (1)		10.0%		6.2%
Company owned stores open at end of period (2)		77		70
Comparable stores open at end of period (1)		59		57

- (1) Comparable store sales (year-over-year comparison of stores operating at the end of the fiscal period and open at least 18 months as of the beginning of each of the fiscal years) 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. Fiscal 2015 comparable stores exclude our Williamsville (Buffalo), New York location, which closed and relocated in

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the third quarter of fiscal 2015, and our Farmingdale location, which permanently closed on February 8, 2015. Fiscal 2014 comparable stores exclude our Bethesda location, which permanently closed on August 12, 2014.

- (2) Our fiscal 2015 store count excludes our Williamsville, Farmingdale and Bethesda locations. Our Fiscal 2014 store count excludes our Bethesda location.

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

The following table reconciles Net income (loss) to EBITDA and Adjusted EBITDA for the periods indicated:

	<b>Thirty-Nine Weeks Ended November 1, 2015</b>	<b>Thirty-Nine Weeks Ended November 2, 2014</b>
Net income (loss)	\$ 36,669	\$ (7,024)
Interest expense, net	9,057	29,826
Loss on debt retirement	6,822	27,578
Provision (benefit) for income tax	19,426	(4,494)
Depreciation and amortization expense	58,247	52,321
<b>EBITDA</b>	<b>130,221</b>	<b>98,207</b>
Loss on asset disposal <sup>(1)</sup>	1,165	1,267
Currency transaction loss (gain) <sup>(2)</sup>	6	(4)
Reimbursement of affiliate and other expenses <sup>(3)</sup>	40	472
Transaction and other costs <sup>(4)</sup>	2,173	1,516
Share-based compensation <sup>(5)</sup>	2,590	1,864
Pre-opening costs <sup>(6)</sup>	7,754	7,942
Change in deferred amusement revenue and ticket liability <sup>(7)</sup>	5,131	2,378
<b>Adjusted EBITDA</b>	<b>\$ 149,080</b>	<b>\$ 113,642</b>
<b>Adjusted EBITDA Margin</b>	<b>23.6%</b>	<b>21.1%</b>

(1) Represents the net book value of assets (less proceeds received) disposed of during the period. Primarily relates to assets replaced in the ongoing operation of business.

(2) Represents the effect of foreign currency transaction losses (gains) related to our store in Canada.

(3) Represents expenses incurred to reimburse our Board of Directors and certain non-recurring payments to management and compensation consultants.

(4) Primarily represents costs related to capital market transactions and store closure costs.

(5) Represents stock compensation expense under our 2010 Stock Incentive Plan and 2014 Stock Incentive Plan.

(6) Represents costs incurred prior to the opening of our new stores.

(7) Represents increases or (decreases) to accrued liabilities established for future amusement games play and the fulfillment of tickets won by customers on our redemption games.

**Reconciliations of Non-GAAP Financial Measures Store-level EBITDA**

The following table reconciles EBITDA to Store-level EBITDA for the periods indicated:

	<b>Thirty-Nine Weeks Ended November 1, 2015</b>	<b>Thirty-Nine Weeks Ended November 2, 2014</b>
EBITDA	\$ 130,221	\$ 98,207
General and administrative expenses	38,985	31,462
Pre-opening costs	7,754	7,942
Store-level EBITDA	\$ 176,960	\$ 137,611
Store-level EBITDA Margin	28.0%	25.5%

**Table of Contents****Capital additions**

The following table represents total accrual-based additions to property and equipment. Capital additions do not include any reductions for tenant improvement allowances received or receivable from landlords.

	<b>Thirty-Nine Weeks Ended November 1, 2015</b>	<b>Thirty-Nine Weeks Ended November 2, 2014</b>
New stores	\$ 85,418	\$ 63,033
Operating initiatives, including remodels	21,785	11,955
Games	9,624	8,162
Maintenance capital	8,491	8,717
<b>Total capital additions</b>	<b>\$ 125,318</b>	<b>\$ 91,867</b>
Tenant improvement allowances	\$ 21,845	\$ 14,855

***Revenues***

Total revenues increased \$93,085, or 17.2%, in the thirty-nine weeks ended November 1, 2015 compared to the thirty-nine weeks ended November 2, 2014.

The increased revenues were derived from the following sources:

Comparable stores	\$ 46,737
Non-comparable stores	47,751
Other	(1,403)
<b>Total</b>	<b>\$ 93,085</b>

Comparable store revenue increased \$46,737, or 10.0%, in the thirty-nine weeks ended November 1, 2015 compared to the thirty-nine weeks ended November 2, 2014. Comparable store walk-in revenues, which accounted for 90.3% of consolidated comparable store revenue in the thirty-nine weeks ended November 1, 2015, increased \$45,094, or 10.7% compared to the thirty-nine weeks ended November 2, 2014. Comparable store special events revenues, which accounted for 9.7% of consolidated comparable store revenue in the thirty-nine weeks ended November 1, 2015, increased \$1,643 or 3.4% compared to the thirty-nine weeks ended November 2, 2014. The increase in comparable store revenue over prior year can be credited to many factors including expanded customer appeal as a result of our remodeling initiatives, the addition of and focus on sports viewing, and media efficiencies which encompass the success of our *New News* program, which features our new offerings in each of the *Eat Drink Play and Watch* pillars through national advertising and the utilization of new media outlets.

Food sales at comparable stores increased by \$10,192, or 6.7%, to \$161,342 in the thirty-nine weeks ended November 1, 2015 from \$151,150 in the thirty-nine weeks ended November 2, 2014. Beverage sales at comparable

stores increased by \$4,942, or 6.9%, to \$76,332 in the thirty-nine weeks ended November 1, 2015 from \$71,390 in the thirty-nine weeks ended November 2, 2014. Comparable store amusement and other revenues in the thirty-nine weeks ended November 1, 2015 increased by \$31,603, or 12.8%, to \$278,324 from \$246,721 in the thirty-nine weeks ended November 2, 2014. The growth over 2014 in amusement sales was driven by additional national advertising which highlighted our games, including exclusive game launches, and a continued succession of game promotions with the return of our *Everyone's a Winner* and our *Summer of Games* campaigns.

Non-comparable store revenue increased \$47,751, or 66.5%, in the thirty-nine weeks ended November 1, 2015 compared to the thirty-nine weeks ended November 2, 2014. The increase in non-comparable store revenue was primarily driven by 323 additional store weeks contributed by our 2014 and 2015 openings compared to fiscal 2014, and partially offset by a decrease in revenue due to the closure of our Bethesda and Farmingdale locations on August 12, 2014 and February 8, 2015, respectively.

Our revenue mix was 31.3% for food, 14.9% for beverage, and 53.8% for amusements and other for the thirty-nine weeks ended November 1, 2015. This compares to 32.3%, 15.1%, and 52.6%, respectively, for the thirty-nine weeks ended November 2, 2014.

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**Table of Contents*****Cost of products***

The total cost of products was \$119,917 for the thirty-nine week ended November 1, 2015 and \$105,274 for the thirty-nine weeks ended November 2, 2014. The total cost of products as a percentage of total revenues was 19.0% and 19.5% for the thirty-nine weeks ended November 1, 2015 and November 2, 2014, respectively.

Cost of food and beverage products increased to \$76,235 in the thirty-nine weeks ended November 1, 2015 compared to \$65,939 in the thirty-nine weeks ended November 2, 2014 due primarily to the increased sales volume. Cost of food and beverage products, as a percentage of food and beverage revenues, increased 40 basis points to 26.1% for the thirty-nine weeks ended November 1, 2015 from 25.7% for the thirty-nine weeks ended November 2, 2014. The increase in the cost of food and beverage as a percentage of revenues is primarily due to increased cost in our meat and poultry categories partially offset by savings in seafood.

Cost of amusement and other increased to \$43,682 in the thirty-nine weeks ended November 1, 2015 compared to \$39,335 in the thirty-nine weeks ended November 2, 2014. The cost of amusement and other, as a percentage of amusement and other revenues decreased 110 basis points to 12.8% for the thirty-nine weeks ended November 1, 2015 from 13.9% for the thirty-nine weeks ended November 2, 2014. This decrease was due to a shift in game play from redemption to simulation and supplies savings resulting from the company wide rollout of our e-ticket initiative. The e-ticket option allows customers to have tickets won from game play stored automatically on their Power Cards instead of receiving paper tickets. Cost reductions resulting from this initiative were partially offset by an increase in accrued liabilities established for future fulfillment of tickets won by customers on our redemption games.

***Operating payroll and benefits***

Operating payroll and benefits increased by \$20,764 or 16.4%, to \$147,121 in the thirty-nine weeks ended November 1, 2015 compared to \$126,357 in the thirty-nine weeks ended November 2, 2014, primarily due to new store openings and increased incentive compensation for performance. The total cost of operating payroll and benefits, as a percent of total revenues, decreased 10 basis points to 23.3% in the thirty-nine weeks ended November 1, 2015 compared to 23.4% in the thirty-nine weeks ended November 2, 2014.

***Other store operating expenses***

Other store operating expenses increased by \$18,329, or 10.8%, to \$188,769, in the thirty-nine weeks ended November 1, 2015 compared to \$170,440 in the thirty-nine weeks ended November 2, 2014, primarily due to new store openings. Other store operating expenses as a percentage of total revenues decreased 190 basis points to 29.7% in the thirty-nine weeks ended November 1, 2015 compared to 31.6% for the same period of 2014, due primarily to favorable leverage of operating costs on increased revenue.

***General and administrative expenses***

General and administrative expenses increased by \$7,523, or 23.9%, to \$38,985 in the thirty-nine weeks ended November 1, 2015 compared to \$31,462 in the thirty-nine weeks ended November 2, 2014. The increase in general and administrative expenses was driven by increased incentive compensation and labor costs at our corporate headquarters, increased stock-based compensation due to options granted since the third quarter of fiscal 2014, costs associated with our three fiscal 2015 follow-on offerings and professional fees associated with post-IPO public company costs and international development initiatives. General and administrative expenses, as a percentage of total revenues, increased 40 basis points to 6.2% in the thirty-nine weeks ended November 1, 2015 compared to 5.8% in the same period of 2014 for the same reasons noted above.

***Depreciation and amortization expense***

Depreciation and amortization expense increased by \$5,926, or 11.3%, to \$58,247 in the thirty-nine weeks ended November 1, 2015 compared to \$52,321 in the thirty-nine weeks ended November 2, 2014. Increased depreciation due to our 2014 and 2015 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 decreased by \$188 to \$7,754 in the thirty-nine weeks ended November 1, 2015 compared to \$7,942 in the thirty-nine weeks ended November 2, 2014 due to the number and timing of new store openings.



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### ***Interest expense***

Interest expense decreased by \$20,769 to \$9,057 in the thirty-nine weeks ended November 1, 2015 compared to \$29,826 in the thirty-nine weeks ended November 2, 2014 due to the two refinancings and use of IPO proceeds to repay debt described in [Liquidity and Capital Resources](#) and [Cash Flows](#) .

### ***Loss on debt retirement***

In connection with the May 15, 2015 debt refinancing (see [Liquidity and Capital Resources](#) for further discussion), the Company recorded a charge of \$6,822. This charge includes non-cash charges of \$6,790 resulting from the write-off of certain unamortized debt issuance costs and the unamortized discount associated with the July 2014 credit facility and \$32 of legal expenses.

In the second quarter of 2014 the Company recorded a charge of \$25,986 in connection with the July 2014 refinancing. This charge includes non-cash charges of \$6,994 resulting from the write-off of certain unamortized debt issuance costs and the unamortized discount associated with the outstanding prior credit facility at that time, \$12,833 related to the early redemption of the 11.0% senior notes, \$6,124 related to the early redemption of the 12.25% senior discount notes and \$35 of legal expenses. In the third quarter of 2014 the Company wrote off \$1,586 in unamortized debt costs related to the use of IPO proceeds and available cash balances to repay \$100,000 principal amount of our July 2014 credit facility and recorded a \$6 in additional legal expenses.

### ***Income tax provision (benefit)***

Income tax provision (benefit) for the thirty-nine weeks ended November 1, 2015 was \$19,426 compared to an income tax benefit of \$4,494 for the thirty-nine weeks ended November 2, 2014. Our effective tax rate differs from the statutory rate due to the deduction for FICA tip credits, state income taxes, the impact of certain expenses, which are not deductible for income tax purposes.

As of November 1, 2015, we estimate that we have available \$2,465 federal tax credit carryovers, including \$2,402 of general business credits and \$63 of AMT credit carryovers, and \$49,336 of state net operating loss carryforwards. There is a 20-year carry-forward on general business credits and AMT credits can be carried forward indefinitely. The general business credits do not begin to expire until 2030 and are expected to be utilized in 2015 based on current enacted tax laws. As of November 1, 2015, we have no federal net operating loss carryforwards. Generally, state net operating losses can be carried forward 20 years. State operating loss carryforwards do not begin to expire until 2024. As of November 1, 2015, we could not conclude that it was more likely than not that all of our state net operating loss carryforwards, when considered on a state by state basis, will be fully utilized prior to their expiration. Included in our total valuation allowance is \$637 related to state net operating losses that may not be realized.

According to ASC 740, Accounting for Uncertainty in Income Taxes, the recognition of income tax benefits is limited to those items that meet the more likely than not threshold on the effective date. As of November 1, 2015, we have accrued approximately \$1,059 of unrecognized tax benefits and approximately \$388 of penalties and interest. During fiscal 2015, we increased our unrecognized provision by \$493 and increased our accrual for interest and penalties by \$50. Because of the impact of deferred tax accounting, \$933 of unrecognized tax benefits, if recognized, would affect the effective tax rate.

We file a consolidated income tax return with all our domestic subsidiaries, which are periodically audited by various federal, state and foreign jurisdictions. We are generally no longer subject to federal, state, or foreign income tax examinations for years prior to fiscal 2010.

## **Liquidity and Capital Resources**

We finance our activities through cash flow from operations and availability under our revolving credit facility. As of November 1, 2015, we had cash and cash equivalents of \$19,329, net working capital deficit of \$53,937 and outstanding debt obligations of \$355,125. We also had \$137,815 in borrowing availability under our 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 non-current 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.

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As of November 1, 2015, we expect our short-term liquidity requirements to include (a) approximately \$142,000 to \$152,000 of capital additions (net of tenant improvement allowances from landlords), (b) scheduled debt service payments under our Credit Facility of \$15,316 including interest payments of \$7,816 (c) lease obligation payments of \$71,437 and (d) estimated cash income tax payments of approximately \$46,000.

***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 non-recurring capital expenditures that need to be made periodically to our stores, 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, and debt service needs 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.

## ***Indebtedness***

***New Credit Facility.*** On May 15, 2015, we entered into the Credit Facility which provides a \$150,000 term loan facility and a \$350,000 revolving credit facility with a maturity date of May 15, 2020. The \$350,000 revolving credit facility includes a \$20,000 letter of credit sub-facility and a \$10,000 swingline sub-facility. The revolving facility will be used to provide financing for general purposes. The term loan facility requires quarterly principal pay downs of \$1,875 which began in the third quarter of fiscal 2015 through maturity, when the remaining balance is due. The 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.

The initial proceeds of the Credit Facility of \$434,000 were used to refinance in full the July 2014 credit facility (of which \$430,000 was outstanding) and to pay related interest and expenses. As a result of the refinancing, we incurred a loss on extinguishment charge of \$6,822, consisting of the write-off of unamortized debt issuance costs, unamortized discount and cash paid for related debt fees. Concurrent with the refinance, we utilized \$45,000 of available cash on hand to pay down a portion of the outstanding revolving portion of the Credit Facility.

As of November 1, 2015, we had letters of credit outstanding of \$5,185 and \$137,815 of borrowing available under our Credit Facility. 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.

The interest rates per annum applicable to loans, other than swingline loans, under our Credit Facility are currently set based on a defined LIBOR rate plus an applicable margin. Swingline loans bear interest at a base rate plus an applicable margin. The loans bear interest subject to a pricing grid based on a secured leveraged ratio, at LIBOR plus a spread ranging from 1.5% to 2.25% for the term loans and the revolving loans. The stated weighted average interest rate on the Credit Facility at November 1, 2015 was 2.20%. The weighted average effective interest rate incurred on our borrowings under the Credit Facility was 2.57%. The weighted average effective rate includes amortization of debt issuance costs, commitment and other fees.

We are exposed to interest rate risk arising from changes in interest rates due to the variable rate indebtedness under our Credit Facility. In October 2015, the Company purchased an interest rate cap agreement for \$920 with a notional amount of \$200,000 to manage our exposure to interest rate movements on our variable rate Credit Facility when one-month LIBOR exceeds 3.0%. The effective date of the interest rate cap agreement is October 7, 2015, and the agreement matures on October 7, 2019. We have not designated the interest rate cap as a hedge for accounting purposes. Accordingly, changes in the fair value of the interest rate cap are recognized as interest expense. The Company's investment in the interest rate cap, with a fair value of \$804 at November 1, 2015, is included in other assets on the balance sheet and was valued using an analysis based on market observable inputs, representing Level Two assets as defined by GAAP. The fair value of the Company's interest rate cap represents the amount the Company would receive to terminate the contract. For the thirteen and thirty-nine weeks ending November 1, 2015, interest expense includes \$116 related to the change in the fair value of the interest rate cap since purchase.

***Prior credit facilities.*** During the second quarter of fiscal 2014, proceeds of \$528,675 from the July 2014 credit facility were used to refinance all the outstanding credit facility and note balances at that time and to pay related premiums, interest and expenses of \$30,850. The outstanding credit facility and notes at July 25, 2014 included \$143,509 on a senior secured credit facility, \$200,000 aggregate principal amount of 11.0% senior notes due June 1, 2018, and the outstanding 12.25% senior discount notes due February 15, 2016 (with a \$150,193 accreted value as of July 25, 2014). In the third quarter of fiscal 2014, the Company wrote off

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\$1,586 in unamortized debt costs related to the use of IPO proceeds and available cash balances to repay \$100,000 principal amount of the July 2014 credit facility and recorded \$6 in additional legal expenses in connection with the debt refinancing that took place in second quarter. As a result of the refinancing and prepayment, we incurred a loss on extinguishment charge of \$27,578, consisting of premiums for early repayment, additional interest charges, and write-off of unamortized debt issue costs and unamortized discount.

**Cash Flows**

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

	<b>Thirty-Nine Weeks Ended November 1, 2015</b>	<b>Thirty-Nine Weeks Ended November 2, 2014</b>
<b>Net cash provided by (used in):</b>		
Operating activities	\$ 121,589	\$ 36,713
Investing activities	(117,523)	(91,610)
Financing activities	(55,613)	75,763

Net cash provided by operating activities was \$121,589 for the thirty-nine weeks ended November 1, 2015 compared to \$36,713 for the thirty-nine weeks ended November 2, 2014. Increased cash flows from operations were driven primarily by increased cash flows from additional non-comparable store sales, increased comparable store sales and improved operating margins and the absence of a \$50,193 payment of accrued interest which occurred in the thirty-nine weeks ended November 2, 2014.

Net cash used in investing activities was \$117,523 for the thirty-nine weeks ended November 1, 2015 compared to \$91,610 for the thirty-nine weeks ended November 2, 2014. Capital expenditures increased \$27,213 to \$118,883 (excluding the increase in fixed asset accrued liabilities of approximately \$6,435) in the first thirty-nine weeks of fiscal 2015 from \$91,670 in the first thirty-nine weeks of fiscal 2014 primarily due to new store openings. During the first thirty-nine weeks of fiscal 2015, the Company spent approximately \$81,170 (\$59,325 net of tenant improvement allowances from landlords) for new store construction, \$11,576 related to a major remodel project on three existing stores and several smaller scale remodel projects, \$8,005 on operating improvement initiatives, \$8,852 for game refreshment and \$9,280 for maintenance capital. New store capital expenditures increased \$22,657 due mainly to the timing of new store openings.

Net cash used in financing activities was \$55,613 for the thirty-nine weeks ended November 1, 2015 compared to cash provided by financing activities of \$75,763 for the thirty-nine weeks ended November 2, 2014. Net cash used in financing activities during the current fiscal year reflects the impact of our May 15, 2015 debt refinancing and subsequent activity which resulted in a \$74,875 net reduction to our outstanding long-term debt during the thirty-nine week period ended November 1, 2015. Net cash used for debt reduction was partially offset by proceeds from stock option exercises and excess income tax benefits related to stock compensation plans.

Cash provided by financing activities during the thirty-nine weeks ended November 2, 2014 reflects the impact of a debt refinancing which was completed on July 14, 2014. In connection with the 2014 debt refinancing we received proceeds of \$528,675, net of a \$1,325 discount from a term loan facility. Proceeds from the term loan facility were

used to repay \$143,509 principal balance of a prior senior secured credit facility, repay \$200,000 principal balance of senior notes, repay \$100,000 of senior discount notes and pay \$8,212 in expenses associated with the 2014 debt refinancing. Additionally, in the third quarter of 2014 the Company used a portion of IPO proceeds and available cash balances to repay \$100,000 principal amount of our July 2014 credit facility.

We plan on financing future growth through existing cash on hand, future operating cash flows, debt facilities and tenant improvement allowances from landlords. We expect to spend between \$174,000 and \$179,000 (\$144,000 to \$149,000 net of tenant improvement allowances from landlords) in capital additions during fiscal 2015. The fiscal 2015 additions are expected to include approximately \$151,000 to \$156,000 (\$121,000 to \$126,000 net of tenant improvement allowances from landlords) for new store construction and operating improvement initiatives, including three store remodels, \$10,000 for game refreshment and \$13,000 in maintenance capital. A portion of the 2015 new store spend is related to stores that will be under construction in 2015 but will not be open until 2016.

**Table of Contents****Contractual Obligations and Commercial Commitments**

The following tables set forth the contractual obligations and commercial commitments as of November 1, 2015:

**Payment due by period**

	<b>Total</b>	<b>1 Year or Less</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>After 5 Years</b>
Credit Facility (1)	\$ 355,125	\$ 7,500	\$ 15,000	\$ 332,625	\$
Interest requirements (2)	34,235	7,816	15,275	11,144	
Operating leases (3)	800,103	71,437	139,220	120,312	469,134
<b>Total</b>	<b>\$ 1,189,463</b>	<b>\$ 86,753</b>	<b>\$ 169,495</b>	<b>\$ 464,081</b>	<b>\$ 469,134</b>

- (1) The Credit Facility includes a \$150,000 term loan facility and \$350,000 revolving credit facility, a letter of credit sub-facility, and a swingline sub-facility. As of November 1, 2015, we had borrowings of \$207,000 under the revolving credit facility, borrowings of \$148,125 under the term facility and \$5,185 in letters of credit outstanding.
- (2) The cash obligations for interest requirements consist of variable rate debt obligations at rates in effect at November 1, 2015.
- (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. We do not have any remaining options to extend the lease terms of two leases which expire in 2019 and one other lease which expires in 2020. All of our other leases include renewal options that give us the opportunity to extend the lease terms beyond 2020.

**Accounting Policies**

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions about future events. 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 are 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 7, 2015.

**Recent accounting pronouncements.** In July 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 requires inventory that is recorded using the first-in, first-out method to be measured at the lower of cost or net realizable value. This update is effective for annual and interim periods beginning after December 15, 2016 with early adoption permitted. We do not expect the adoption ASU 2015-11 to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The amendments in this update provide guidance to customers as to whether a cloud computing arrangement includes a software license. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. ASU 2015-05 is effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 require the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for annual and interim periods beginning on or after December 15, 2015. In August, the FASB issued ASU No. 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation of Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 permits entities to defer and present debt issuance costs related to line-of-credit arrangements as assets. As of November 1, 2015, if we were to adopt ASU 2015-03 and ASU 2015-15, \$2,990 of net deferred financing costs would be reclassified from Other assets and deferred charges to a reduction in the carrying amount of our debt, of which \$2,101 is related to a line-of-credit arrangement, and could be presented as an asset.



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***JOBS Act.*** We have historically filed as an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act), and we have taken advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, such as reduced public company reporting, accounting and corporate governance requirements.

Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. However, we chose to opt out of any extended transition period, and as a result we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

The JOBS Act provides that we can remain an emerging growth company for up to five years following our IPO in October 2014, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenue exceeds \$1 billion, (ii) the date that we become a large accelerated filer as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700,000 as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period.

As of the end of our second quarter, the market value of our common stock held by non-affiliates exceeded \$700,000. As such, we will cease to be an emerging growth company at the conclusion of fiscal 2015, and will instead be considered a large accelerated filer.

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

### **Commodity Price Risk**

We are exposed to market price fluctuation in food 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 and beverage 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 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 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. In October 2015, the Company purchased an interest rate cap agreement for \$920 with a notional amount of \$200,000 to manage our exposure to interest rate movements on our variable rate Credit Facility when one-month LIBOR exceeds 3.0%. The effective date of the interest rate cap agreement is October 7, 2015, and the agreement matures on October 7, 2019. As of November 1, 2015, LIBOR was .19%. We estimate that a hypothetical 25 basis point increase in LIBOR would increase our annualized interest expense by approximately \$870.

## **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 or state minimum wage and increases in the minimum wage will increase our labor costs. The State of California (where nine of our stores are located) raised the state minimum hourly wage from \$8.00 per hour to \$9.00 per hour effective July 1, 2014. The California hourly minimum wage is scheduled to increase to \$10.00 per hour on January 1, 2016. The State of New York (where eight of our stores are located) raised the state minimum tipped wage from \$5.00 per hour to \$7.50 per hour effective December 31, 2015.

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In general, we have been able to substantially offset cost increases resulting from inflation by increasing menu prices, improving productivity, or through other adjustments. 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 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 Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

#### ***Internal Controls Over Financial Reporting***

There were no significant changes in our internal controls over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during our third quarter ended November 1, 2015, 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 5 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 7, 2015, other than the addition of the following risk factor.

#### **Failure to maintain effective internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley could have a material adverse effect on our business and stock price.**

We are required to comply with certain SEC rules that implement Sections 302 and 404 of Sarbanes-Oxley, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting. Though we are required to disclose changes made in our internal control procedures on a quarterly basis, we take advantage of certain exceptions from reporting requirements that are available to emerging growth companies under the JOBS Act, each independent registered public accounting firm that performs an audit for us has not been required to attest to and report on our annual assessment of our internal controls over financial reporting pursuant to Section 404 until the later of the year following our first annual report required to be filed with the SEC or the date we are no longer an emerging growth company as defined in the JOBS Act. As of August 2, 2015, the market value of our common stock held by non-affiliates exceeded \$700 million. As such, we will cease to be an emerging growth company at the conclusion of

fiscal 2015. While we expect to be ready to comply with Section 404 of Sarbanes-Oxley by the applicable deadline, we cannot assure you that this will be the case. Furthermore, we may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Section 404 of Sarbanes-Oxley. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to conclude that we have effective internal controls over financial reporting in accordance with Section 404 of Sarbanes-Oxley. If we are not able to implement the requirements of Section 404 of Sarbanes-Oxley in a timely manner or with adequate compliance, our independent registered public accounting firm may issue an adverse opinion due to ineffective internal controls over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur costs in improving our internal control system and the hiring of additional personnel. Any such action could have a material adverse effect on our business, prospects, results of operations and financial condition.

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

*Use of Proceeds from Offering of Common Stock*

On September 30, 2015, we completed a follow-on offering of 6,900,000 shares of our common stock (including the underwriters overallotment option of 900,000 shares) at a price of \$37.00 per share. All of these shares were offered by the selling stockholders. In connection with the offering, 366,476 options were exercised at a weighted average price of \$4.46. We issued new shares in satisfaction of this exercise. We received \$1,633 upon the exercise of options which were sold as part of this offering.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

None

**ITEM 5. OTHER INFORMATION**

None

**Table of Contents****ITEM 6. EXHIBITS****Exhibit**

<b>Number</b>	<b>Description</b>
10.1	Credit Agreement, dated as of May 15, 2015 by and among Dave & Buster's Holdings, Inc., the direct and indirect Subsidiaries of the Borrower from time to time party thereto, as guarantors, the several financial institutions from time to time party thereto, as lenders, Bank of America, N.A., as administrative agent, swing line lender and L/C issuer and Wells Fargo, National Association, as syndication agent (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on May 18, 2015)
31.1*	Certification of Stephen M. King, Chief Executive Officer and Director of the Registrant, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a).
31.2*	Certification of Brian A. Jenkins, Senior Vice President and Chief Financial Officer of the Registrant, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a).
32.1*	Certification of Stephen M. King, Chief Executive Officer and Director of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Brian A. Jenkins, Senior Vice President and 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.
101	XBRL Interactive Data files

\* Filed herein

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**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: December 8, 2015

By: /s/ Stephen M. King  
Stephen M. King  
Chief Executive Officer

Date: December 8, 2015

By: /s/ Brian A. Jenkins  
Brian A. Jenkins  
Senior Vice President and Chief Financial Officer