

Dave & Buster's Entertainment, Inc.

Form 10-Q

December 06, 2016

[Table of Contents](#)

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED OCTOBER 30, 2016**

**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)**

|                                                             |                                              |
|-------------------------------------------------------------|----------------------------------------------|
| <b>Delaware</b><br><b>(State or Other Jurisdiction of</b>   | <b>35-2382255</b><br><b>(I.R.S. Employer</b> |
| <b>Incorporation or Organization)</b>                       | <b>Identification No.)</b>                   |
| <b>2481 Mañana Drive</b>                                    |                                              |
| <b>Dallas, Texas 75220</b>                                  |                                              |
| <b>(Address of principal executive offices)</b>             |                                              |
| <b>(Zip Code)</b>                                           |                                              |
| <b>(214) 357-9588</b>                                       |                                              |
| <b>(Registrant's telephone number, including area code)</b> |                                              |

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

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

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 1, 2016, there were 42,051,159 shares of the Issuer's common stock outstanding.

**Table of Contents**

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

**FORM 10-Q FOR QUARTERLY PERIOD ENDED OCTOBER 30, 2016**

**TABLE OF CONTENTS**

|                                                                                                      | <b>PAGE</b> |
|------------------------------------------------------------------------------------------------------|-------------|
| <br><b><u>PART I FINANCIAL INFORMATION</u></b>                                                       |             |
| ITEM 1. <u>FINANCIAL STATEMENTS</u>                                                                  | 3           |
| ITEM 2. <u>MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 15          |
| ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                            | 30          |
| ITEM 4. <u>CONTROLS AND PROCEDURES</u>                                                               | 30          |
| <br><b><u>PART II OTHER INFORMATION</u></b>                                                          |             |
| ITEM 1. <u>LEGAL PROCEEDINGS</u>                                                                     | 31          |
| ITEM 1A. <u>RISK FACTORS</u>                                                                         | 31          |
| ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>                           | 31          |
| ITEM 6. <u>EXHIBITS</u>                                                                              | 32          |
| <u>SIGNATURES</u>                                                                                    | 33          |

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

(in thousands, except share and per share amounts)

|                                                                                                                                            | <b>October 30,<br/>2016<br/>(unaudited)</b> | <b>January<br/>31,<br/>2016<br/>(audited)</b> |
|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------|
| <b>ASSETS</b>                                                                                                                              |                                             |                                               |
| Current assets:                                                                                                                            |                                             |                                               |
| Cash and cash equivalents                                                                                                                  | \$ 14,724                                   | \$ 25,495                                     |
| Inventories                                                                                                                                | 20,557                                      | 19,529                                        |
| Prepaid expenses                                                                                                                           | 15,238                                      | 12,954                                        |
| Deferred income taxes                                                                                                                      |                                             | 30,257                                        |
| Income taxes receivable                                                                                                                    | 7,430                                       | 4,146                                         |
| Other current assets                                                                                                                       | 7,905                                       | 17,699                                        |
| Total current assets                                                                                                                       | 65,854                                      | 110,080                                       |
| Property and equipment (net of \$368,701 and \$309,345 accumulated depreciation as of October 30, 2016 and January 31, 2016, respectively) | 608,546                                     | 523,891                                       |
| Deferred income taxes                                                                                                                      | 2,524                                       |                                               |
| Tradenames                                                                                                                                 | 79,000                                      | 79,000                                        |
| Goodwill                                                                                                                                   | 272,649                                     | 272,694                                       |
| Other assets and deferred charges                                                                                                          | 15,413                                      | 18,036                                        |
| Total assets                                                                                                                               | \$ 1,043,986                                | \$ 1,003,701                                  |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                                                                                 |                                             |                                               |
| Current liabilities:                                                                                                                       |                                             |                                               |
| Current installments of long-term debt                                                                                                     | \$ 7,500                                    | \$ 7,500                                      |
| Accounts payable                                                                                                                           | 64,786                                      | 42,836                                        |
| Accrued liabilities                                                                                                                        | 115,667                                     | 103,614                                       |
| Income taxes payable                                                                                                                       | 2,632                                       | 2,697                                         |
| Total current liabilities                                                                                                                  | 190,585                                     | 156,647                                       |
| Deferred income taxes                                                                                                                      | 12,059                                      | 35,347                                        |
| Deferred occupancy costs                                                                                                                   | 139,160                                     | 125,259                                       |
| Other liabilities                                                                                                                          | 12,363                                      | 10,194                                        |
| Long-term debt, net                                                                                                                        | 270,451                                     | 329,916                                       |

|                                                                                                                                                                                                                                                       |              |              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Commitments and contingencies                                                                                                                                                                                                                         |              |              |
| Stockholders' equity:                                                                                                                                                                                                                                 |              |              |
| Common stock, par value \$0.01; authorized: 400,000,000 shares; issued: 42,213,767 shares at October 30, 2016 and 41,618,933 shares at January 31, 2016; outstanding: 42,058,052 shares at October 30, 2016 and 41,618,933 shares at January 31, 2016 | 422          | 416          |
| Preferred stock, 50,000,000 authorized; none issued                                                                                                                                                                                                   |              |              |
| Paid-in capital                                                                                                                                                                                                                                       | 297,450      | 280,828      |
| Treasury stock, 155,715 and 0 shares as of October 30, 2016 and January 31, 2016, respectively                                                                                                                                                        | (6,721)      |              |
| Accumulated other comprehensive loss                                                                                                                                                                                                                  | (790)        | (970)        |
| Retained earnings                                                                                                                                                                                                                                     | 129,007      | 66,064       |
| Total stockholders' equity                                                                                                                                                                                                                            | 419,368      | 346,338      |
| Total liabilities and stockholders' equity                                                                                                                                                                                                            | \$ 1,043,986 | \$ 1,003,701 |

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share amounts)

|                                                         | <b>Thirteen Weeks<br/>Ended<br/>October 30, 2016</b> | <b>Thirteen Weeks<br/>Ended<br/>November 1, 2015</b> |
|---------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Food and beverage revenues                              | \$ 101,343                                           | \$ 89,826                                            |
| Amusement and other revenues                            | 127,316                                              | 102,927                                              |
| Total revenues                                          | 228,659                                              | 192,753                                              |
| Cost of food and beverage                               | 26,560                                               | 23,575                                               |
| Cost of amusement and other                             | 15,581                                               | 12,842                                               |
| Total cost of products                                  | 42,141                                               | 36,417                                               |
| Operating payroll and benefits                          | 55,034                                               | 48,048                                               |
| Other store operating expenses                          | 71,888                                               | 63,762                                               |
| General and administrative expenses                     | 13,506                                               | 12,640                                               |
| Depreciation and amortization expense                   | 22,864                                               | 20,032                                               |
| Pre-opening costs                                       | 4,553                                                | 2,395                                                |
| Total operating costs                                   | 209,986                                              | 183,294                                              |
| Operating income                                        | 18,673                                               | 9,459                                                |
| Interest expense, net                                   | 1,578                                                | 2,184                                                |
| Income before provision for income taxes                | 17,095                                               | 7,275                                                |
| Provision for income taxes                              | 6,340                                                | 2,721                                                |
| Net income                                              | 10,755                                               | 4,554                                                |
| Unrealized foreign currency translation gain (loss)     | (106)                                                | 5                                                    |
| Total comprehensive income                              | \$ 10,649                                            | \$ 4,559                                             |
| Net income per share:                                   |                                                      |                                                      |
| Basic                                                   | \$ 0.26                                              | \$ 0.11                                              |
| Diluted                                                 | \$ 0.25                                              | \$ 0.11                                              |
| Weighted average shares used in per share calculations: |                                                      |                                                      |
| Basic                                                   | 42,061,235                                           | 41,241,274                                           |
| Diluted                                                 | 43,327,812                                           | 42,938,502                                           |

See accompanying notes to consolidated financial statements.



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

(in thousands, except share and per share amounts)

|                                                                | <b>Thirty-nine Weeks<br/>Ended<br/>October 30, 2016</b> | <b>Thirty-nine Weeks<br/>Ended<br/>November 1,<br/>2015</b> |
|----------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------|
| Food and beverage revenues                                     | \$ 326,139                                              | \$ 292,604                                                  |
| Amusement and other revenues                                   | 408,837                                                 | 340,163                                                     |
| <b>Total revenues</b>                                          | <b>734,976</b>                                          | <b>632,767</b>                                              |
| Cost of food and beverage                                      | 83,772                                                  | 76,235                                                      |
| Cost of amusement and other                                    | 48,628                                                  | 43,682                                                      |
| <b>Total cost of products</b>                                  | <b>132,400</b>                                          | <b>119,917</b>                                              |
| Operating payroll and benefits                                 | 166,614                                                 | 147,121                                                     |
| Other store operating expenses                                 | 214,487                                                 | 188,769                                                     |
| General and administrative expenses                            | 40,131                                                  | 38,985                                                      |
| Depreciation and amortization expense                          | 65,108                                                  | 58,247                                                      |
| Pre-opening costs                                              | 10,390                                                  | 7,754                                                       |
| <b>Total operating costs</b>                                   | <b>629,130</b>                                          | <b>560,793</b>                                              |
| <b>Operating income</b>                                        | <b>105,846</b>                                          | <b>71,974</b>                                               |
| Interest expense, net                                          | 5,573                                                   | 9,057                                                       |
| Loss on debt retirement                                        |                                                         | 6,822                                                       |
| <b>Income before provision for income taxes</b>                | <b>100,273</b>                                          | <b>56,095</b>                                               |
| Provision for income taxes                                     | 36,845                                                  | 19,426                                                      |
| <b>Net income</b>                                              | <b>63,428</b>                                           | <b>36,669</b>                                               |
| Unrealized foreign currency translation gain (loss)            | 180                                                     | (85)                                                        |
| <b>Total comprehensive income</b>                              | <b>\$ 63,608</b>                                        | <b>\$ 36,584</b>                                            |
| <b>Net income per share:</b>                                   |                                                         |                                                             |
| Basic                                                          | \$ 1.52                                                 | \$ 0.90                                                     |
| Diluted                                                        | \$ 1.47                                                 | \$ 0.86                                                     |
| <b>Weighted average shares used in per share calculations:</b> |                                                         |                                                             |
| Basic                                                          | 41,863,932                                              | 40,775,253                                                  |
| Diluted                                                        | 43,234,767                                              | 42,677,807                                                  |

See accompanying notes to consolidated financial statements.



Table of Contents

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

(in thousands, except share amounts)

|                                                                         | Common stock |        | Paid-In    | Treasury stock |            | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Retained<br>earnings | Total      |
|-------------------------------------------------------------------------|--------------|--------|------------|----------------|------------|-----------------------------------------------------------|----------------------|------------|
|                                                                         | Shares       | Amt.   | Capital    | Shares         | Amt.       |                                                           |                      |            |
| <b>Balance January 31, 2016 (audited)</b>                               | 41,618,933   | \$ 416 | \$ 280,828 |                | \$         | \$ (970)                                                  | \$ 66,064            | \$ 346,338 |
| Net income                                                              |              |        |            |                |            |                                                           | 63,428               | 63,428     |
| Unrealized foreign currency translation gain                            |              |        |            |                |            | 180                                                       |                      | 180        |
| Share-based compensation                                                |              |        | 4,665      |                |            |                                                           |                      | 4,665      |
| Excess income tax benefit related to share-based compensation plans     |              |        | 9,124      |                |            |                                                           |                      | 9,124      |
| Issuance of common stock upon exercise of options and restricted shares | 594,834      | 6      | 2,914      |                |            |                                                           |                      | 2,920      |
| Repurchase of common stock                                              |              |        |            | (170,615)      | (7,364)    |                                                           |                      | (7,364)    |
| Reissuance of treasury stock                                            |              |        | (81)       | 14,900         | 643        |                                                           | (485)                | 77         |
| <b>Balance October 30, 2016 (unaudited)</b>                             | 42,213,767   | \$ 422 | \$ 297,450 | (155,715)      | \$ (6,721) | \$ (790)                                                  | \$ 129,007           | \$ 419,368 |

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<br/>Ended<br/>October 30,<br/>2016</b> | <b>Thirty-nine Weeks<br/>Ended<br/>November 1,<br/>2015</b> |
|-----------------------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| <b>Cash flows from operating activities:</b>                                      |                                                             |                                                             |
| Net income                                                                        | \$ 63,428                                                   | \$ 36,669                                                   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                                             |                                                             |
| Depreciation and amortization expense                                             | 65,108                                                      | 58,247                                                      |
| Deferred taxes                                                                    | 4,445                                                       | (2,145)                                                     |
| Excess income tax benefit related to share-based compensation plans               | (9,124)                                                     | (15,711)                                                    |
| Loss on disposal of fixed assets                                                  | 987                                                         | 1,165                                                       |
| Loss on debt retirement                                                           |                                                             | 6,790                                                       |
| Share-based compensation                                                          | 4,665                                                       | 2,590                                                       |
| Other, net                                                                        | 1,261                                                       | 931                                                         |
| Changes in assets and liabilities:                                                |                                                             |                                                             |
| Inventories                                                                       | (1,028)                                                     | (1,166)                                                     |
| Prepaid expenses                                                                  | (2,284)                                                     | (2,812)                                                     |
| Income taxes receivable                                                           | (3,284)                                                     | (1,749)                                                     |
| Other current assets                                                              | 10,056                                                      | (5,825)                                                     |
| Other assets and deferred charges                                                 | 1,194                                                       | (3,640)                                                     |
| Accounts payable                                                                  | 2,972                                                       | 834                                                         |
| Accrued liabilities                                                               | 10,855                                                      | 10,416                                                      |
| Income taxes payable                                                              | 9,059                                                       | 16,319                                                      |
| Deferred occupancy costs                                                          | 14,071                                                      | 18,615                                                      |
| Other liabilities                                                                 | 2,169                                                       | 2,061                                                       |
| Net cash provided by operating activities                                         | 174,550                                                     | 121,589                                                     |
| <b>Cash flows from investing activities:</b>                                      |                                                             |                                                             |
| Capital expenditures                                                              | (131,284)                                                   | (118,883)                                                   |
| Proceeds from sales of property and equipment                                     | 31                                                          | 140                                                         |
| Collections of notes receivable                                                   | 800                                                         | 1,220                                                       |
| Net cash used in investing activities                                             | (130,453)                                                   | (117,523)                                                   |
| <b>Cash flows from financing activities:</b>                                      |                                                             |                                                             |
| Borrowings under Credit Facility                                                  | 68,000                                                      | 455,000                                                     |
| Repayments of Credit Facility                                                     | (127,625)                                                   | (99,875)                                                    |
| Repayments of the July 2014 credit facility                                       |                                                             | (430,000)                                                   |

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

|                                                                     |                  |                  |  |
|---------------------------------------------------------------------|------------------|------------------|--|
| Debt issuance costs                                                 |                  | (3,310)          |  |
| Proceeds from the exercise of stock options                         | 2,920            | 5,758            |  |
| Proceeds from the reissuance of treasury stock                      | 77               | 1,103            |  |
| Repurchase of common stock                                          | (7,364)          |                  |  |
| Excess income tax benefit related to share-based compensation plans | 9,124            | 15,711           |  |
| Net cash used in financing activities                               | (54,868)         | (55,613)         |  |
| Decrease in cash and cash equivalents                               | (10,771)         | (51,547)         |  |
| Beginning cash and cash equivalents                                 | 25,495           | 70,876           |  |
| <b>Ending cash and cash equivalents</b>                             | <b>\$ 14,724</b> | <b>\$ 19,329</b> |  |
| Supplemental disclosures of cash flow information:                  |                  |                  |  |
| Cash paid for income taxes, net                                     | \$ 26,606        | \$ 6,998         |  |
| Cash paid for interest, net                                         | \$ 5,083         | \$ 8,838         |  |
| Increase in fixed asset accounts payable                            | \$ 18,978        | \$ 6,435         |  |
| Cash paid for interest and debt fees, related to debt retirement    | \$               | \$ 32            |  |

See accompanying notes to consolidated financial statements.

---

**Table of Contents**

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

**Notes to Unaudited Consolidated Financial Statements**

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

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

**Basis of presentation** Dave & Buster's Entertainment, Inc. ( D&B Entertainment ) is a Delaware corporation formed in June 2010. References to the Company , we , us , and our refers to D&B Entertainment, any predecessor companies, its wholly-owned subsidiaries, Dave & Buster's Holdings, Inc. ( D&B Holdings ), a holding company which owns 100% of the outstanding common stock of Dave & Buster's, Inc. ( D&B Inc ), the operating company. The Company, headquartered in Dallas, Texas, is a leading operator of high-volume entertainment and dining venues ( stores ) in North America for adults and families under the name Dave & Buster's . As of October 30, 2016, we owned and operated 88 stores located in 33 states and one Canadian province. We anticipate opening four additional stores in the fourth quarter of fiscal 2016.

The accompanying unaudited consolidated financial statements include the accounts of D&B Entertainment and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company's financial statements have been prepared in accordance with generally accepted accounting principles ( GAAP ) in the United States for interim financial information as prescribed by the Securities and Exchange Commission ( SEC ). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. The preparation of 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. Actual results could differ from those estimates. Operating results for the thirteen and thirty-nine weeks ended October 30, 2016 are not necessarily indicative of results that may be expected for any other interim period or for the year ending January 29, 2017. Our quarterly financial data should be read in conjunction with the audited financial statements and notes thereto for the year ended January 31, 2016, included in our Annual Report on Form 10-K as filed with the SEC.

We operate on a 52 or 53 week fiscal year that ends on the Sunday after the Saturday closest to January 31. Each quarterly period has 13 weeks, except in a 53 week year when the fourth quarter has 14 weeks. Fiscal 2016 and fiscal 2015, which end on January 29, 2017 and January 31, 2016, respectively, both consist of 52 weeks.

In November 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740), to simplify the presentation of deferred taxes in the consolidated balance sheet. The amendments to the guidance require that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet, and the new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. We adopted the amendments to this guidance beginning with the first quarter of fiscal 2016 and have applied the amendments prospectively. Prior periods were not retrospectively adjusted.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30), and in August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-03 changes the presentation of debt issuance costs and generally requires debt issuance costs related to a recognized debt liability to be reported as a direct

reduction from the carrying amount of the debt. ASU 2015-15 clarifies that debt issuance costs incurred in connection with line-of-credit arrangements may continue to be presented as an asset, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The new standards do not change the recognition and measurement of debt issuance costs. We adopted this guidance in the first quarter of fiscal 2016 on a retrospective basis. As a result, we reclassified debt issuance costs related to our term loan facility of \$834 included in Other assets and deferred charges to Long-term debt, net on our previously reported consolidated balance sheet as of January 31, 2016.

ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (Subtopic 350-40), was adopted in the first quarter of fiscal 2016 and did not have a material impact on the Company's consolidated financial statements.

Certain amounts within the fiscal 2015 Consolidated Statement of Cash Flows have been disaggregated to conform to the fiscal 2016 presentation. Our cash management system provides for the funding of all major bank disbursement accounts on a daily basis as checks are presented for payment. Under this system, outstanding checks are in excess of the cash balances at certain banks, which creates book overdrafts. Book overdrafts of \$11,115 and \$14,180 are presented in Accounts payable in the Consolidated Balance Sheets as of October 30, 2016 and January 31, 2016, respectively. Changes in the book overdraft position are presented within Net cash provided by operating activities within the Consolidated Statements of Cash Flows.

The balance of Other current assets includes construction allowance receivables of \$3,876 and \$13,097 as of October 30, 2016 and January 31, 2016, respectively, related to our new store openings.

## **Table of Contents**

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

Our financial instruments consist of cash and cash equivalents, accounts and notes receivable, accounts payable and our credit facility. The carrying amount of cash and cash equivalents, accounts and notes receivable and accounts payable approximates fair value because of their short maturities. We believe that the carrying amount of our credit facility approximates 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.

Non-financial assets and liabilities recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis include such items as property and equipment, goodwill, tradenames and other assets. These assets are measured at fair value if determined to be impaired. During the thirty-nine weeks ended October 30, 2016, there were no impairments recognized.

***Related party transactions*** As of January 31, 2016, Oak Hill Capital Partners III, L.P. and Oak Hill Capital Management Partners III, L.P. (collectively, the Oak Hill Funds) owned approximately 18% of our outstanding stock. As of October 30, 2016, the Oak Hill Funds no longer owned our outstanding stock and certain members of our Board of Directors and our management owned approximately 1.0% of our outstanding stock.

***Stockholders' equity*** Effective June 7, 2016, our Board of Directors approved a share repurchase program authorizing up to \$100,000 in share repurchases through the end of fiscal 2018. The Company may repurchase shares on the open market, through privately negotiated transactions, and through trading plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The share repurchase program may be modified, suspended or discontinued at any time. During the third quarter, the Company purchased 132,221 shares of common stock at an average cost of \$41.84 per share, and during fiscal 2016, the Company purchased 170,615 shares of common stock at an average cost of \$43.16 per share.

***Effect of new accounting pronouncements*** In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), which addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718), which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows and the calculation of diluted net income per share. ASU 2016-09 is effective for interim and annual periods beginning after December 15, 2016. The adoption of this guidance will require prospective recognition of excess tax benefits and deficiencies (that result from an increase or decrease in the fair value of an award from grant date to the vesting date or exercise date) on share-based compensation arrangements in the tax provision, instead of in equity as under the current guidance. In addition, these amounts will be classified as an operating activity in the statement of cash flows, instead of as a financing activity, with the change in classification to be applied either retrospectively or prospectively. The company reported excess tax benefits of \$16,834 in fiscal 2015 and \$9,124

during the thirty-nine weeks ended October 30, 2016. The fiscal 2015 and fiscal 2016 amounts of excess tax benefits are not necessarily indicative of future amounts that may arise in years following implementation of the new accounting pronouncement.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires a lessee to recognize an asset and liability for lease arrangements longer than twelve months. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact of the updated guidance on our consolidated financial statements, but expect this adoption will result in a significant increase in our assets and liabilities on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (Topic 330), which changes the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. The guidance is effective for interim and annual periods beginning after December 15, 2016 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes most current revenue recognition guidance and outlines a single comprehensive model for entities to use in accounting

**Table of Contents**

for revenue. In August 2015, the FASB issued ASU 2015-14 delaying the effective date for adoption. The update is now effective for interim and annual periods beginning after December 15, 2017. The guidance provides a five step framework to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration it expects to be entitled to receive in exchange for those goods or services. The update permits the use of either the retrospective or cumulative effect transition method. We do not believe the new revenue recognition standard will impact our recognition of food and beverage sales, and we are continuing to evaluate the impact of the adoption of this standard on the recognition of additional revenue transactions and the transition method that we will apply.

**Note 2: Accrued Liabilities**

Accrued liabilities consist of the following as of:

|                                                 | <b>October 30, 2016</b> | <b>January 31, 2016</b> |
|-------------------------------------------------|-------------------------|-------------------------|
| Deferred amusement revenue                      | \$ 26,108               | \$ 22,623               |
| Compensation and benefits                       | 25,794                  | 25,054                  |
| Amusement redemption liability                  | 14,821                  | 12,816                  |
| Rent                                            | 14,064                  | 12,277                  |
| Property taxes                                  | 5,812                   | 3,556                   |
| Customer deposits                               | 5,701                   | 2,734                   |
| Deferred gift card revenue                      | 5,197                   | 6,705                   |
| Current portion of long-term insurance reserves | 3,591                   | 3,591                   |
| Utilities                                       | 2,787                   | 2,753                   |
| Sales and use taxes                             | 2,692                   | 3,669                   |
| Inventory received but not invoiced             | 1,099                   | 1,019                   |
| Other                                           | 8,001                   | 6,817                   |
| <b>Total accrued liabilities</b>                | <b>\$ 115,667</b>       | <b>\$ 103,614</b>       |

**Note 3: Long-Term Debt**

Long-term debt consists of the following as of:

|                               | <b>October 30, 2016</b> | <b>January 31, 2016</b> |
|-------------------------------|-------------------------|-------------------------|
| Credit Facility - term        | \$ 140,625              | \$ 146,250              |
| Credit Facility - revolver    | 138,000                 | 192,000                 |
| <b>Total debt outstanding</b> | <b>278,625</b>          | <b>338,250</b>          |
| Less:                         |                         |                         |
| Current installments - term   | 7,500                   | 7,500                   |
| Debt issuance costs - term    | 674                     | 834                     |
| <b>Long-term debt, net</b>    | <b>\$ 270,451</b>       | <b>\$ 329,916</b>       |

**Credit facility** On May 15, 2015, we entered into a 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. As of October 30, 2016, we had letters of credit outstanding of \$5,016 and \$206,984 of borrowing available under our 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 incurred a loss on extinguishment charge of \$6,822 in the second quarter of fiscal 2015, 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.

**Table of Contents**

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 total leverage 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 October 30, 2016 was 2.02%. The weighted average effective interest rate incurred on our borrowings under the Credit Facility was 2.52%. The weighted average effective rate includes amortization of debt issuance costs, commitment and other fees.

Our Credit Facility contains restrictive covenants that, among other things, place certain limitations on our ability to: incur additional indebtedness, make loans or advances to subsidiaries and other entities, pay dividends, acquire other businesses or sell assets. In addition, our Credit Facility requires us to maintain certain financial ratio covenants. As of October 30, 2016, we were in compliance with the restrictive and financial ratio covenants under the Credit Facility.

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

|                              | <b>October 30, 2016</b> |
|------------------------------|-------------------------|
| 1 year or less               | \$ 7,500                |
| 2 years                      | 7,500                   |
| 3 years                      | 7,500                   |
| 4 years                      | 256,125                 |
| 5 years                      |                         |
| Thereafter                   |                         |
| <b>Total future payments</b> | <b>\$ 278,625</b>       |

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

|                                           | <b>Thirteen Weeks<br/>Ended<br/>October 30, 2016</b> | <b>Thirteen Weeks<br/>Ended<br/>November 1, 2015</b> |
|-------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Credit facility interest expense          | \$ 1,582                                             | \$ 2,052                                             |
| Amortization of issuance cost             | 168                                                  | 171                                                  |
| Interest income                           | (58)                                                 | (68)                                                 |
| Less capitalized interest                 | (112)                                                | (87)                                                 |
| Change in fair value of interest rate cap | (2)                                                  | 116                                                  |

|                             |          |          |
|-----------------------------|----------|----------|
| Total interest expense, net | \$ 1,578 | \$ 2,184 |
|-----------------------------|----------|----------|

|                                  | <b>Thirty-nine Weeks<br/>Ended<br/>October 30,<br/>2016</b> | <b>Thirty-nine Weeks<br/>Ended<br/>November 1,<br/>2015</b> |
|----------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| Credit facility interest expense | \$ 5,216                                                    | \$ 9,402                                                    |

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

|                                               |          |          |
|-----------------------------------------------|----------|----------|
| Amortization of issuance cost and discount    | 506      | 696      |
| Gain on early collection on a note receivable |          | (493)    |
| Interest income                               | (184)    | (212)    |
| Less capitalized interest                     | (322)    | (452)    |
| Change in fair value of interest rate cap     | 357      | 116      |
| Total interest expense, net                   | \$ 5,573 | \$ 9,057 |

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, net for fiscal 2015 includes a \$493 gain related to the collection of the note receivable.

## **Table of Contents**

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. The derivative is not designated as a hedge and does not qualify for hedge accounting. 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 \$88 at October 30, 2016, is included in Other assets and deferred charges in the Consolidated Balance Sheets 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 October 30, 2016, interest (income) expense includes \$(2) and \$357, respectively, related to the change in the fair value of the interest rate cap.

### **Note 4: Income Taxes**

The effective income tax rate increased to 36.7% for the thirty-nine weeks ended October 30, 2016 compared to 34.6% in the thirty-nine weeks ended November 1, 2015. The increase in our effective tax rate is primarily due to the impact of state taxes and reduced leverage of FICA Tip Credits as a result of higher pre-tax income.

As of October 30, 2016, we had approximately \$58,400 of state net operating loss carryforwards, which can generally be carried forward for 20 years.

### **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 October 30, 2016:

|                              |                     |
|------------------------------|---------------------|
| 1 year or less               | \$ 83,957           |
| 2 years                      | 81,916              |
| 3 years                      | 78,140              |
| 4 years                      | 71,856              |
| 5 years                      | 66,613              |
| Thereafter                   | 658,810             |
| <b>Total future payments</b> | <b>\$ 1,041,292</b> |

As of October 30, 2016 we have signed operating lease agreements for eight future sites which are expected to open in the fourth quarter of fiscal 2016 or fiscal 2017. 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 October 30, 2016, we have signed eighteen 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 above.

**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 effect of dilutive 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.

**Table of Contents**

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

| (in thousands, except share and per share data)          | Thirteen Weeks Ended<br>October 30, 2016 | Thirteen Weeks Ended<br>November 1, 2015 |
|----------------------------------------------------------|------------------------------------------|------------------------------------------|
| <b>Numerator:</b>                                        |                                          |                                          |
| Net income                                               | \$ 10,755                                | \$ 4,554                                 |
| <b>Denominator:</b>                                      |                                          |                                          |
| Basic weighted average common shares outstanding         | 42,061,235                               | 41,241,274                               |
| Effect of dilutive common shares for equity-based awards | 1,266,577                                | 1,697,228                                |
| Diluted weighted average common shares outstanding       | 43,327,812                               | 42,938,502                               |
| <b>Net income per share:</b>                             |                                          |                                          |
| Basic                                                    | \$ 0.26                                  | \$ 0.11                                  |
| Diluted                                                  | \$ 0.25                                  | \$ 0.11                                  |

| (in thousands, except share and per share data)          | Thirty-nine Weeks Ended<br>October 30, 2016 | Thirty-nine Weeks Ended<br>November 1, 2015 |
|----------------------------------------------------------|---------------------------------------------|---------------------------------------------|
| <b>Numerator:</b>                                        |                                             |                                             |
| Net income                                               | \$ 63,428                                   | \$ 36,669                                   |
| <b>Denominator:</b>                                      |                                             |                                             |
| Basic weighted average common shares outstanding         | 41,863,932                                  | 40,775,253                                  |
| Effect of dilutive common shares for equity-based awards | 1,370,835                                   | 1,902,554                                   |
| Diluted weighted average common shares outstanding       | 43,234,767                                  | 42,677,807                                  |
| <b>Net income per share:</b>                             |                                             |                                             |
| Basic                                                    | \$ 1.52                                     | \$ 0.90                                     |
| Diluted                                                  | \$ 1.47                                     | \$ 0.86                                     |

We had 2,742,999 and 3,160,844 stock option awards, unvested time-based restricted stock units ( RSU s ) and unvested time-based restricted stock awards outstanding under our incentive stock plans as of October 30, 2016 and November 1, 2015, respectively, which were included in the computation of dilutive common shares. Unvested performance-based RSU s were not included in the calculation of dilutive common shares as they did not meet the criteria for inclusion per GAAP guidance.

**Note 7: Share-based Compensation**

Compensation expense related to stock options, time-based and performance-based RSU s and restricted stock is as follows:

|                                        | <b>Thirteen Weeks Ended</b> |                         | <b>Thirty-nine Weeks Ended</b> |                         |
|----------------------------------------|-----------------------------|-------------------------|--------------------------------|-------------------------|
|                                        | <b>October 30, 2016</b>     | <b>November 1, 2015</b> | <b>October 30, 2016</b>        | <b>November 1, 2015</b> |
| Stock options                          | \$ 1,088                    | \$ 748                  | \$ 3,138                       | \$ 2,054                |
| RSU's and restricted stock             | 580                         | 221                     | 1,527                          | 536                     |
| Total share-based compensation expense | \$ 1,668                    | \$ 969                  | \$ 4,665                       | \$ 2,590                |

## Table of Contents

Transactions related to stock option awards during the thirty-nine weeks ended October 30, 2016 were as follows:

|                                 | 2014 Stock Incentive Plan |                                 | 2010 Stock Incentive Plan |                                 |                           |                                 |
|---------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|
|                                 | Service based options     | Weighted Average Exercise Price | Service based options     | Weighted Average Exercise Price | Performance based options | Weighted Average Exercise Price |
|                                 | Number of Options         |                                 | Number of Options         |                                 | Number of Options         |                                 |
| Outstanding at January 31, 2016 | 699,179                   | \$ 21.72                        | 451,401                   | \$ 7.07                         | 1,890,424                 | \$ 4.57                         |
| Granted                         | 279,915                   | 39.14                           |                           |                                 |                           |                                 |
| Exercised                       | (5,957)                   | 31.71                           | (73,057)                  | 4.77                            | (510,814)                 | 4.82                            |
| Forfeited                       | (8,720)                   | 37.39                           |                           |                                 |                           |                                 |
| Outstanding at October 30, 2016 | 964,417                   | \$ 26.57                        | 378,344                   | \$ 7.52                         | 1,379,610                 | \$ 4.47                         |
| Exercisable at October 30, 2016 | 99,253                    | \$ 31.79                        | 257,602                   | \$ 7.29                         | 1,379,610                 | \$ 4.47                         |

The total intrinsic value of options exercised during the thirty-nine weeks ended October 30, 2016 and November 1, 2015 was \$23,186 and \$40,942, respectively. The unrecognized expense related to our stock option plan totaled approximately \$3,992 as of October 30, 2016 and will be expensed over a weighted average period of 1.5 years. The average remaining term for all options outstanding at October 30, 2016 is 5.8 years.

Transactions related to time-based and performance-based RSUs and restricted shares during the thirty-nine weeks ended October 30, 2016 were as follows:

|                                 | Shares   | Weighted Average Fair Value |
|---------------------------------|----------|-----------------------------|
| Outstanding at January 31, 2016 | 70,534   | \$ 31.75                    |
| Granted                         | 83,118   | 40.28                       |
| Vested                          | (11,174) | 32.18                       |
| Forfeited                       | (2,339)  | 36.84                       |
| Outstanding at October 30, 2016 | 140,139  | \$ 36.69                    |

Fair value of our time-based and performance-based RSUs and restricted shares is based on our closing stock price on the date of grant. The unrecognized expense related to our time-based and performance-based RSUs and unvested restricted shares was \$3,977 as of October 30, 2016 and will be expensed over a weighted average period of 2.2 years.

---

**Table of Contents**

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

The following discussion and analysis of our financial condition and results of operations should be read together with the accompanying unaudited consolidated financial statements and the related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC) on March 29, 2016. 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 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, will or should or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this 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 March 29, 2016. 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 entertainment and dining for both adults and families under the name Dave & Buster's. Founded in 1982, the core of our concept is to offer our customers the opportunity to Eat, Drink, Play and Watch all in one location. Eat and Drink are offered through a full menu of 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 43,000 square feet, range in size between 16,000 and 66,000 square feet and are open seven days a week, with hours of operation typically from 11:30 a.m. to midnight on Sunday through Thursday and 11:30 a.m. to 2:00 a.m. on Friday and Saturday.

**Our Growth Strategies and Outlook**

Our growth is based primarily on the following strategies:

Pursue disciplined new store growth;

Grow our comparable stores sales; and

Expand the Dave & Buster's brand internationally.

## **Table of Contents**

We intend for new store expansion to be a key growth driver. Our long-term plan is to open new stores at an annual rate of at least 10% of our existing stores. During the first thirty-nine weeks of fiscal 2016, the Company opened seven new stores, compared to six new store openings in the comparable 2015 period including the fiscal 2015 relocation of an existing store in Williamsville (Buffalo), New York to a new site in the same market. As of October 30, 2016, there were 88 stores in the United States and Canada. 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 customer experience through providing new product offerings in each of the Eat, Drink, Play and Watch components of our business. We currently anticipate opening eleven new stores in fiscal 2016.

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. In October 2015, we signed a seven store franchise agreement for licensed development in the Middle East, which includes six countries.

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 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 store base consisted of 66 stores as of October 30, 2016.

***New store openings*** Our ability to expand our business and reach new customers is influenced by the opening of additional stores in both new and existing markets. The success of our new stores is indicative of our brand appeal and the efficacy of our site selection and operating models. Between November 1, 2015 and October 30, 2016, we have opened eleven new stores.

## **Non-GAAP Key Financial Measures**

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

## **Table of Contents**

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 consistent with that reported to our lenders 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.

***Store EBITDA and Store EBITDA Margin*** We define Store 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 EBITDA Margin is defined as Store EBITDA divided by total revenues. Store EBITDA Margin allows us to evaluate operating performance of each store across stores of varying size and volume.

We believe that Store 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 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 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, net and depreciation and amortization expense, which are important in evaluating our consolidated financial performance from period to period, the value of this measure is limited as a measure of our consolidated financial performance.

## **Presentation of Operating Results**

We operate on a 52 or 53 week fiscal year that ends on the Sunday after the Saturday closest to January 31. Each 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 2016 relate to the 13 week period ended October 30, 2016. All references to the third quarter of 2015 relate to the 13 week period ended November 1, 2015. All references to the year-to-date fiscal 2016 period relate to the thirty-nine week period ended October 30, 2016. All references to the year-to-date fiscal 2015 period relate to the thirty-nine week period ended November 1, 2015. Both fiscal 2016 and fiscal 2015 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. 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 changes in customer traffic.

The special events portion of our business represented 8.8% of our total revenues for the thirty-nine weeks ended October 30, 2016. 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.

***Cost of products*** Cost of products includes the cost of food, beverages and the amusement redemption items. The cost of products is driven by product mix and pricing movements from third-party suppliers. The cost of products as a percentage of the related revenues is impacted by the underlying product cost as well as menu pricing.

***Operating payroll and benefits*** Operating payroll and benefits consist of wages, employer taxes and benefits for store personnel. We continually review the opportunity for labor 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 as well as share-based compensation expense.

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

## **Table of Contents**

***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, net*** Interest expense, net includes the cost of our debt obligations including the amortization of loan fees, 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 during the second quarter of fiscal 2015.

***Provision for income taxes*** Provision for income taxes represents current and deferred income taxes in federal, state, and foreign jurisdictions.

## **Liquidity and Cash Flows**

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

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

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

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

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

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, state or local 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 October 30, 2016 Compared to Thirteen Weeks Ended November 1, 2015**

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

|                                                                               | <b>Thirteen Weeks<br/>Ended<br/>October 30, 2016</b> |              | <b>Thirteen Weeks<br/>Ended<br/>November 1, 2015</b> |              |
|-------------------------------------------------------------------------------|------------------------------------------------------|--------------|------------------------------------------------------|--------------|
| Food and beverage revenues                                                    | \$ 101,343                                           | 44.3%        | \$ 89,826                                            | 46.6%        |
| Amusement and other revenues                                                  | 127,316                                              | 55.7         | 102,927                                              | 53.4         |
| <b>Total revenues</b>                                                         | <b>228,659</b>                                       | <b>100.0</b> | <b>192,753</b>                                       | <b>100.0</b> |
| Cost of food and beverage (as a percentage of food and beverage revenues)     | 26,560                                               | 26.2         | 23,575                                               | 26.2         |
| Cost of amusement and other (as a percentage of amusement and other revenues) | 15,581                                               | 12.2         | 12,842                                               | 12.5         |
| <b>Total cost of products</b>                                                 | <b>42,141</b>                                        | <b>18.4</b>  | <b>36,417</b>                                        | <b>18.9</b>  |
| Operating payroll and benefits                                                | 55,034                                               | 24.1         | 48,048                                               | 24.9         |
| Other store operating expenses                                                | 71,888                                               | 31.4         | 63,762                                               | 33.1         |
| General and administrative expenses                                           | 13,506                                               | 5.9          | 12,640                                               | 6.6          |
| Depreciation and amortization expense                                         | 22,864                                               | 10.0         | 20,032                                               | 10.4         |
| Pre-opening costs                                                             | 4,553                                                | 2.0          | 2,395                                                | 1.2          |
| <b>Total operating costs</b>                                                  | <b>209,986</b>                                       | <b>91.8</b>  | <b>183,294</b>                                       | <b>95.1</b>  |
| <b>Operating income</b>                                                       | <b>18,673</b>                                        | <b>8.2</b>   | <b>9,459</b>                                         | <b>4.9</b>   |
| Interest expense, net                                                         | 1,578                                                | 0.7          | 2,184                                                | 1.1          |
| <b>Income before provision for income taxes</b>                               | <b>17,095</b>                                        | <b>7.5</b>   | <b>7,275</b>                                         | <b>3.8</b>   |
| Provision for income taxes                                                    | 6,340                                                | 2.8          | 2,721                                                | 1.4          |
| <b>Net income</b>                                                             | <b>\$ 10,755</b>                                     | <b>4.7%</b>  | <b>\$ 4,554</b>                                      | <b>2.4%</b>  |
| Change in comparable store sales <sup>(1)</sup>                               |                                                      | 5.9%         |                                                      | 8.8%         |
| Company owned stores open at end of period                                    |                                                      | 88           |                                                      | 77           |
| Comparable stores open at end of period <sup>(1)</sup>                        |                                                      | 66           |                                                      | 59           |

- <sup>(1)</sup> 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.



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

The following table reconciles Net income to Adjusted EBITDA for the periods indicated:

|                                                                          | <b>Thirteen Weeks<br/>Ended<br/>October 30, 2016</b> | <b>Thirteen Weeks<br/>Ended<br/>November 1, 2015</b> |
|--------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Net income                                                               | \$ 10,755                                            | \$ 4,554                                             |
| Interest expense, net                                                    | 1,578                                                | 2,184                                                |
| Provision for income tax                                                 | 6,340                                                | 2,721                                                |
| Depreciation and amortization expense                                    | 22,864                                               | 20,032                                               |
| <b>EBITDA</b>                                                            | <b>41,537</b>                                        | <b>29,491</b>                                        |
| Loss on asset disposal <sup>(1)</sup>                                    | 514                                                  | 296                                                  |
| Share-based compensation <sup>(2)</sup>                                  | 1,668                                                | 969                                                  |
| Pre-opening costs <sup>(3)</sup>                                         | 4,553                                                | 2,395                                                |
| Change in deferred amusement revenue and ticket liability <sup>(4)</sup> | 586                                                  | 414                                                  |
| Transaction and other costs <sup>(5)</sup>                               | (5)                                                  | 933                                                  |
| <b>Adjusted EBITDA</b>                                                   | <b>\$ 48,853</b>                                     | <b>\$ 34,498</b>                                     |
| <b>Adjusted EBITDA Margin</b>                                            | <b>21.4%</b>                                         | <b>17.9%</b>                                         |

- (1) Represents the net book value of assets (less proceeds received) disposed of during the year. Primarily relates to assets replaced in the ongoing operation of business.
- (2) Represents share-based compensation expense under our incentive plans.
- (3) Represents costs incurred prior to the opening of our new stores.
- (4) 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.
- (5) Primarily represents costs related to currency transaction (gains) or losses, capital market transactions and store closure costs.

**Store EBITDA**

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

|                                     | <b>Thirteen Weeks<br/>Ended<br/>October 30, 2016</b> | <b>Thirteen Weeks<br/>Ended<br/>November 1, 2015</b> |
|-------------------------------------|------------------------------------------------------|------------------------------------------------------|
| <b>EBITDA</b>                       | <b>\$ 41,537</b>                                     | <b>\$ 29,491</b>                                     |
| General and administrative expenses | 13,506                                               | 12,640                                               |

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

|                     |    |        |    |        |
|---------------------|----|--------|----|--------|
| Pre-opening costs   |    | 4,553  |    | 2,395  |
| Store EBITDA        | \$ | 59,596 | \$ | 44,526 |
| Store EBITDA Margin |    | 26.1%  |    | 23.1%  |

**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 accrual-based tenant improvement allowances from landlords, which are listed separately in the table.

|                                           | <b>Thirteen Weeks Ended<br/>October 30, 2016</b> | <b>Thirteen Weeks Ended<br/>November 1, 2015</b> |
|-------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| New stores                                | \$ 49,115                                        | \$ 33,204                                        |
| Operating initiatives, including remodels | 3,258                                            | 2,991                                            |
| Games                                     | 348                                              | 1,152                                            |
| Maintenance capital                       | 4,667                                            | 4,281                                            |
| <b>Total capital additions</b>            | <b>\$ 57,388</b>                                 | <b>\$ 41,628</b>                                 |
| Tenant improvement allowances             | \$ 6,118                                         | \$ 9,073                                         |

**Revenues**

Total revenues increased \$35,906, or 18.6%, to \$228,659 in the third quarter of fiscal 2016 compared to total revenues of \$192,753 in the third quarter of fiscal 2015. For the thirteen weeks ended October 30, 2016, we derived 29.8% of our total revenue from food sales, 14.5% from beverage sales, 54.9% from amusement sales and 0.8% from other sources. 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.

The increased revenues, in the third quarter of fiscal 2016, were from the following sources:

|                       |                  |
|-----------------------|------------------|
| Comparable stores     | \$ 9,836         |
| Non-comparable stores | 26,183           |
| Other                 | (113)            |
| <b>Total</b>          | <b>\$ 35,906</b> |

Comparable store revenue increased \$9,836, or 5.9%, in the third quarter of 2016 compared to the third quarter of 2015. The increase in comparable store revenue over prior year is primarily attributed to growth in amusement sales. Comparable store walk-in revenues, which accounted for 90.1% of consolidated comparable store revenue in the third quarter of 2016, increased \$8,603, or 5.7% compared to the third quarter of 2015. Comparable store special events revenues, which accounted for 9.9% of consolidated comparable store revenue in the third quarter of fiscal 2016, increased \$1,233 or 7.6% compared to the third quarter of fiscal 2015.

Food sales at comparable stores increased by \$423, or 0.8%, to \$53,032 in the third quarter of fiscal 2016 from \$52,609 in the third quarter of fiscal 2015. Beverage sales at comparable stores increased by \$142, or 0.6%, to \$25,747 in the third quarter of fiscal 2016 from \$25,605 in the third quarter of fiscal 2015. The increase in food and beverage sales at comparable stores is attributed, in part, to an overall increase in menu prices and an overall shift to

higher-priced items, partially offset by lower customer volumes. Comparable store amusement and other revenues in the third quarter of fiscal 2016 increased by \$9,271, or 10.4%, to \$98,635 from \$89,364 in the third quarter of fiscal 2015, due to an increase in both the number of Power Cards sold and the revenue per Power Card sold. The growth over fiscal 2015 in amusement sales was driven, in part, to the success of our Summer of Games promotion that concluded in the third quarter and featured nine new games.

Non-comparable store revenue increased \$26,183, or 105.7%, in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015. The increase in non-comparable store revenue was primarily driven by 140 additional operating store weeks contributed by our twenty-two non-comparable stores, partially offset by eight fewer operating store weeks due to the closure and relocation of our Williamsville (Buffalo), New York location on September 27, 2015.

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

The total cost of products was \$42,141 for the third quarter of fiscal 2016 and \$36,417 for the third quarter of fiscal 2015. The total cost of products as a percentage of total revenues was 18.4% and 18.9% for the third quarter of fiscal 2016 and third quarter of fiscal 2015, respectively.

Cost of food and beverage products increased to \$26,560 in the third quarter of fiscal 2016 compared to \$23,575 in the third quarter of fiscal 2015 due primarily to the increased sales volume related to new store openings. Cost of food and beverage products,

---

**Table of Contents**

as a percentage of food and beverage revenues, remained unchanged at 26.2% for the third quarter of both fiscal 2016 and fiscal 2015. We experienced a decrease in the cost of food due to lower cost of commodities in our meat, seafood and poultry categories, which was offset by an increase in the cost of beverage.

Cost of amusement and other increased to \$15,581 in the third quarter of fiscal 2016 compared to \$12,842 in the third quarter of fiscal 2015. The costs of amusement and other, as a percentage of amusement and other revenues, decreased 30 basis points to 12.2% for the third quarter of fiscal 2016 from 12.5% for the third quarter of fiscal 2015, primarily due to favorable experience in our ticket redemption patterns.

***Operating payroll and benefits***

For the thirteen weeks ended October 30, 2016, hourly wages represented 54.9% of operating payroll and benefits costs, 26.5% was related to management labor and 18.6% represented expenses for payroll taxes, benefits and store-level incentive compensation. Total operating payroll and benefits increased by \$6,986, or 14.5%, to \$55,034 in the third quarter of fiscal 2016 compared to \$48,048 in the third quarter of fiscal 2015. This increase was primarily due to labor associated with the 132 net additional operating store weeks of our twenty-two non-comparable stores and was partially offset by decreased store-level incentive compensation. The total cost of operating payroll and benefits, as a percent of total revenues, decreased 80 basis points to 24.1% for the third quarter of fiscal 2016 from 24.9% in the third quarter of fiscal 2015 driven primarily by favorable leverage on sales, partially offset by hourly wage rate increases of 5.3% and normal labor inefficiencies associated with our non-comparable store base.

***Other store operating expenses***

Other store operating expenses increased by \$8,126, or 12.7%, to \$71,888, in the third quarter of fiscal 2016 compared to \$63,762 in the third quarter of fiscal 2015, primarily due to new store openings and higher costs of marketing due to increases in the underlying price of the media and strategic shifts in media purchasing. Other store operating expenses as a percentage of total revenues decreased 170 basis points to 31.4% in the third quarter of fiscal 2016 compared to 33.1% for the same period of fiscal 2015. The favorable basis point reduction was due primarily to favorable leverage of utilities, repairs and occupancy expense on increased revenue partially offset by increased credit card chargebacks.

***General and administrative expenses***

General and administrative expenses increased by \$866, or 6.9%, to \$13,506 in the third quarter of fiscal 2016 compared to \$12,640 in the third quarter of fiscal 2015. The increase was driven primarily by increased incentive compensation costs at our corporate headquarters and incremental share-based compensation costs related to our 2015 and 2016 grants of stock options and restricted stock units partially offset by the absence of costs associated with fiscal 2015 capital market transactions. General and administrative expenses, as a percentage of total revenues, decreased 70 basis points to 5.9% in the third quarter of fiscal 2016 compared to 6.6% in the same period of fiscal 2015, as a result of favorable leverage on increased sales.

***Depreciation and amortization expense***

Depreciation and amortization expense increased by \$2,832, or 14.1%, to \$22,864 in the third quarter of fiscal 2016 compared to \$20,032 in the third quarter of fiscal 2015. Increased depreciation due to our 2015 and 2016 capital expenditures for new stores, operating initiatives, including remodels, games and maintenance capital, was partially offset by other assets reaching the end of their depreciable lives.

***Pre-opening costs***

Pre-opening costs increased by \$2,158 to \$4,553 in the third quarter of fiscal 2016 compared to \$2,395 in the third quarter of fiscal 2015 due to the number and timing of new store openings.

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

Interest expense, net decreased by \$606 to \$1,578 in the third quarter of fiscal 2016 compared to \$2,184 in the third quarter of fiscal 2015 due primarily to a reduction in outstanding debt. The average outstanding debt balance was approximately \$75,000 lower during the thirteen-week period ended October 30, 2016 compared to the thirteen week period ended November 1, 2015. The stated weighted average interest rate on the Credit Facility also decreased from 2.20% at November 1, 2015 to 2.02% at October 30, 2016. Additionally, interest expense, net in the third quarter of fiscal 2015 included \$116 related to the change in the fair value of our interest rate cap.

***Provision for income taxes***

The effective income tax rate decreased to 37.1% for the third quarter of fiscal 2016 compared to 37.4% in the third quarter of fiscal 2015. The decrease in our effective tax rate is primarily due to the impact of state taxes.

**Thirty-nine Weeks Ended October 30, 2016 Compared to Thirty-nine Weeks Ended November 1, 2015**

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

|                                                                               | <b>Thirty-nine Weeks<br/>Ended<br/>October 30, 2016</b> |       | <b>Thirty-nine Weeks<br/>Ended<br/>November 1, 2015</b> |       |
|-------------------------------------------------------------------------------|---------------------------------------------------------|-------|---------------------------------------------------------|-------|
| Food and beverage revenues                                                    | \$ 326,139                                              | 44.4% | \$ 292,604                                              | 46.2% |
| Amusement and other revenues                                                  | 408,837                                                 | 55.6  | 340,163                                                 | 53.8  |
| Total revenues                                                                | 734,976                                                 | 100.0 | 632,767                                                 | 100.0 |
| Cost of food and beverage (as a percentage of food and beverage revenues)     | 83,772                                                  | 25.7  | 76,235                                                  | 26.1  |
| Cost of amusement and other (as a percentage of amusement and other revenues) | 48,628                                                  | 11.9  | 43,682                                                  | 12.8  |
| Total cost of products                                                        | 132,400                                                 | 18.0  | 119,917                                                 | 19.0  |
| Operating payroll and benefits                                                | 166,614                                                 | 22.7  | 147,121                                                 | 23.3  |
| Other store operating expenses                                                | 214,487                                                 | 29.1  | 188,769                                                 | 29.7  |
| General and administrative expenses                                           | 40,131                                                  | 5.5   | 38,985                                                  | 6.2   |
| Depreciation and amortization expense                                         | 65,108                                                  | 8.9   | 58,247                                                  | 9.2   |
| Pre-opening costs                                                             | 10,390                                                  | 1.4   | 7,754                                                   | 1.2   |
| Total operating costs                                                         | 629,130                                                 | 85.6  | 560,793                                                 | 88.6  |
| Operating income                                                              | 105,846                                                 | 14.4  | 71,974                                                  | 11.4  |
| Interest expense, net                                                         | 5,573                                                   | 0.8   | 9,057                                                   | 1.4   |
| Loss on debt retirement                                                       |                                                         |       | 6,822                                                   | 1.1   |
| Income before provision for income taxes                                      | 100,273                                                 | 13.6  | 56,095                                                  | 8.9   |

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

|                                                        |           |      |           |       |
|--------------------------------------------------------|-----------|------|-----------|-------|
| Provision for income taxes                             | 36,845    | 5.0  | 19,426    | 3.1   |
| Net income                                             | \$ 63,428 | 8.6% | \$ 36,669 | 5.8%  |
| Change in comparable store sales <sup>(1)</sup>        |           | 3.4% |           | 10.0% |
| Company owned stores open at end of period             |           | 88   |           | 77    |
| Comparable stores open at end of period <sup>(1)</sup> |           | 66   |           | 59    |

- <sup>(1)</sup> 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.

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

The following table reconciles Net income to Adjusted EBITDA for the periods indicated:

|                                                                          | <b>Thirty-nine Weeks<br/>Ended<br/>October 30,<br/>2016</b> | <b>Thirty-nine Weeks<br/>Ended<br/>November 1,<br/>2015</b> |
|--------------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| Net income                                                               | \$ 63,428                                                   | \$ 36,669                                                   |
| Interest expense, net                                                    | 5,573                                                       | 9,057                                                       |
| Loss on debt retirement                                                  |                                                             | 6,822                                                       |
| Provision for income tax                                                 | 36,845                                                      | 19,426                                                      |
| Depreciation and amortization expense                                    | 65,108                                                      | 58,247                                                      |
| EBITDA                                                                   | 170,954                                                     | 130,221                                                     |
| Loss on asset disposal <sup>(1)</sup>                                    | 987                                                         | 1,165                                                       |
| Share-based compensation <sup>(2)</sup>                                  | 4,665                                                       | 2,590                                                       |
| Pre-opening costs <sup>(3)</sup>                                         | 10,390                                                      | 7,754                                                       |
| Change in deferred amusement revenue and ticket liability <sup>(4)</sup> | 5,490                                                       | 5,131                                                       |
| Transaction and other costs <sup>(5)</sup>                               | 68                                                          | 2,219                                                       |
| Adjusted EBITDA                                                          | \$ 192,554                                                  | \$ 149,080                                                  |
| Adjusted EBITDA Margin                                                   | 26.2%                                                       | 23.6%                                                       |

- (1) Represents the net book value of assets (less proceeds received) disposed of during the year. Primarily relates to assets replaced in the ongoing operation of business.
- (2) Represents share-based compensation expense under our incentive plans.
- (3) Represents costs incurred prior to the opening of our new stores.
- (4) 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.
- (5) Primarily represents costs related to currency transaction (gains) or losses, capital market transactions and store closure costs.

**Store EBITDA**

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

|  | <b>Thirty-nine Weeks<br/>Ended<br/>October 30,</b> | <b>Thirty-nine Weeks<br/>Ended<br/>November 1,</b> |
|--|----------------------------------------------------|----------------------------------------------------|
|--|----------------------------------------------------|----------------------------------------------------|

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

|                                     | <b>2016</b> | <b>2015</b> |
|-------------------------------------|-------------|-------------|
| EBITDA                              | \$ 170,954  | \$ 130,221  |
| General and administrative expenses | 40,131      | 38,985      |
| Pre-opening costs                   | 10,390      | 7,754       |
| Store EBITDA                        | \$ 221,475  | \$ 176,960  |
| Store EBITDA Margin                 | 30.1%       | 28.0%       |

**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 accrual-based tenant improvement allowances from landlords, which are listed separately in the table.

|                                           | <b>Thirty-nine Weeks<br/>Ended<br/>October 30,<br/>2016</b> | <b>Thirty-nine Weeks<br/>Ended<br/>November 1,<br/>2015</b> |
|-------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------|
| New stores                                | \$ 106,134                                                  | \$ 85,418                                                   |
| Operating initiatives, including remodels | 17,890                                                      | 21,785                                                      |
| Games                                     | 15,180                                                      | 9,624                                                       |
| Maintenance capital                       | 11,058                                                      | 8,491                                                       |
| <b>Total capital additions</b>            | <b>\$ 150,262</b>                                           | <b>\$ 125,318</b>                                           |
| Tenant improvement allowances             | \$ 16,779                                                   | \$ 21,845                                                   |

**Revenues**

Total revenues increased \$102,209, or 16.2%, to \$734,976 in the thirty-nine weeks ended October 30, 2016 compared to total revenues of \$632,767 in the thirty-nine weeks ended November 1, 2015. For the thirty-nine weeks ended October 30, 2016, we derived 30.2% of our total revenue from food sales, 14.2% from beverage sales, 54.8% from amusement sales and 0.8% 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.

The increased revenues were derived from the following sources:

|                       |                   |
|-----------------------|-------------------|
| Comparable stores     | \$ 19,168         |
| Non-comparable stores | 81,994            |
| Other                 | 1,047             |
| <b>Total</b>          | <b>\$ 102,209</b> |

Comparable store revenue increased \$19,168, or 3.4%, in the thirty-nine weeks ended October 30, 2016 compared to the thirty-nine weeks ended November 1, 2015. The increase in comparable store revenue over prior year is primarily attributed to growth in amusement sales. Comparable store walk-in revenues, which accounted for 90.6% of consolidated comparable store revenue in the thirty-nine weeks ended October 30, 2016, increased \$17,685, or 3.4%, compared to the thirty-nine weeks ended November 1, 2015. Comparable store special events revenues, which accounted for 9.4% of consolidated comparable store revenue in the thirty-nine weeks ended October 30, 2016, increased \$1,483, or 2.7%, compared to the thirty-nine weeks ended November 1, 2015.

Food sales at comparable stores decreased by \$530, or 0.3%, to \$177,364 in the thirty-nine weeks ended October 30, 2016 from \$177,894 in the thirty-nine weeks ended November 1, 2015. Beverage sales at comparable stores decreased by \$89, or 0.1%, to \$83,285 in the thirty-nine weeks ended October 30, 2016 from \$83,374 in the thirty-nine weeks ended November 1, 2015. The decrease in food and beverage sales at comparable stores is attributed to lower customer volumes offset primarily by an overall increase in menu prices. Comparable store amusement and other revenues in the thirty-nine weeks ended October 30, 2016 increased by \$19,787, or 6.4%, to \$327,338 from \$307,551 in the thirty-nine weeks ended November 1, 2015, due to an increase in both the number of Power Cards sold and the revenue per Power Card sold. The growth over fiscal 2015 in amusement sales was driven by national advertising, which highlighted our new games offerings, and the return of our Everyone's a Winner promotion and Summer of Games campaign, which featured nine new games.

Non-comparable store revenue increased \$81,994, or 122.9%, in the thirty-nine weeks ended 2016 compared to the same period of fiscal 2015. The increase in non-comparable store revenue was primarily driven by 415 additional operating store weeks contributed by our twenty-two non-comparable stores, partially offset by 35 fewer operating store weeks, primarily attributable to the closure and relocation of our Williamsville (Buffalo), New York location on September 27, 2015.

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

The total cost of products was \$132,400 for the thirty-nine week period ended October 30, 2016 and \$119,917 for the thirty-nine week period ended November 1, 2015. The total cost of products as a percentage of total revenues was 18.0% and 19.0% for the thirty-nine week period ended October 30, 2016 and the thirty-nine week period ended November 1, 2015, respectively.

---

**Table of Contents**

Cost of food and beverage products increased to \$83,772 in the thirty-nine week period ended October 30, 2016 compared to \$76,235 in the thirty-nine week period ended November 1, 2015 due primarily to the increased sales volume. Cost of food and beverage products, as a percentage of food and beverage revenues, decreased 40 basis points to 25.7% for the thirty-nine week period ended October 30, 2016 from 26.1% for the thirty-nine weeks ended November 1, 2015. The decrease in the cost of food and beverage as a percentage of revenues is primarily due to lower cost of commodities in our meat, seafood and poultry categories.

Cost of amusement and other increased to \$48,628 in the thirty-nine week period ended October 30, 2016 compared to \$43,682 in the thirty-nine week period ended November 1, 2015. The costs of amusement and other, as a percentage of amusement and other revenues decreased 90 basis points to 11.9% for the thirty-nine weeks ended October 30, 2016 from 12.8% for the thirty-nine weeks ended November 1, 2015. This decrease was due, in part, to reduced paper ticket costs for our redemption games resulting from our e-ticket initiative, which was implemented during the first half of fiscal 2015 and favorable experience in our ticket redemption patterns.

***Operating payroll and benefits***

For the thirty-nine weeks ended October 30, 2016, hourly wages comprised 55.6% of operating payroll and benefits costs, 25.9% was related to management labor and 18.5% represented expenses for payroll taxes, benefits and store-level incentive compensation. Total operating payroll and benefits increased by \$19,493, or 13.2%, to \$166,614 in the thirty-nine week period ended October 30, 2016 compared to \$147,121 in the thirty-nine week period ended November 1, 2015, primarily due to labor associated with 380 net additional operating store weeks of our non-comparable stores and was partially offset by decreased store-level incentive compensation of approximately \$1,900. The total cost of operating payroll and benefits, as a percent of total revenues, decreased 60 basis points to 22.7% for the thirty-nine week period ended October 30, 2016 from 23.3% in the thirty-nine weeks ended November 1, 2015. This decrease was due, in part, to store-level incentive compensation and payroll related benefits which decreased approximately 70 basis points, partially offset by hourly wage rate increases of 4.6% and normal labor inefficiencies associated with our non-comparable store base.

***Other store operating expenses***

Other store operating expenses increased by \$25,718, or 13.6%, to \$214,487, in the thirty-nine week period ended October 30, 2016 compared to \$188,769 in the thirty-nine week period ended November 1, 2015, primarily due to new store openings and higher costs of marketing due to increases in the underlying price of the media and strategic shifts in media purchasing. Other store operating expenses as a percentage of total revenues decreased 60 basis points to 29.1% in the thirty-nine week period ended October 30, 2016 compared to 29.7% for the same period of fiscal 2015, due primarily to favorable leverage of utilities, repairs and marketing expenses on increased revenue partially offset by increased credit card chargebacks.

***General and administrative expenses***

General and administrative expenses increased by \$1,146, or 2.9%, to \$40,131 in the thirty-nine week period ended October 30, 2016 compared to \$38,985 in the thirty-nine week period ended November 1, 2015. The increase in general and administrative expenses was primarily driven by increased labor costs at our corporate headquarters and incremental share-based compensation costs related to our 2015 and 2016 grants of stock options and restricted stock units. These costs were partially offset by reduced incentive compensation costs at our corporate headquarters and the absence of costs associated with fiscal 2015 capital market transactions. General and administrative expenses, as a percentage of total revenues, decreased 70 basis points to 5.5% in the thirty-nine weeks ended October 30, 2016 compared to 6.2% in the same period of fiscal 2015, as a result of favorable leverage on increased sales.

***Depreciation and amortization expense***

Depreciation and amortization expense increased by \$6,861, or 11.8%, to \$65,108 in the thirty-nine week period ended October 30, 2016 compared to \$58,247 in the thirty-nine week period ended November 1, 2015. Increased depreciation due to our 2015 and 2016 capital expenditures for new stores, operating initiatives, including remodels, games and maintenance capital, was partially offset by other assets reaching the end of their depreciable lives.

***Pre-opening costs***

Pre-opening costs increased by \$2,636 to \$10,390 in the thirty-nine week period ended October 30, 2016 compared to \$7,754 in the thirty-nine week period ended November 1, 2015 due to the number and timing of new store openings and was partially offset by the absence of pre-opening rent related to our two stores that opened in the second quarter of fiscal 2016, which we own instead of lease the underlying property.

---

**Table of Contents**

***Interest expense, net***

Interest expense, net decreased by \$3,484 to \$5,573 in the thirty-nine week period ended October 30, 2016 compared to \$9,057 in the thirty-nine week period ended November 1, 2015 due primarily to the May 2015 refinancing, described in Liquidity and Capital Resources, which resulted in a significantly lower effective interest rate. The average outstanding debt balance was also approximately \$90,000 lower during the thirty-nine week period ended October 30, 2016 compared to the thirty-nine week period ended November 1, 2015. This decrease was offset by interest income of \$493 in the thirty-nine weeks ended November 1, 2015, related to the gain on the collection of a note receivable. Additionally, for the thirty-nine week period ended October 30, 2016, interest expense related to the change in the fair value of our interest rate cap increased \$241 compared to the thirty-nine week period ended November 1, 2015.

***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 during the second quarter of fiscal 2015. 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.

***Provision for income taxes***

The effective income tax rate increased to 36.7% for the thirty-nine weeks ended October 30, 2016 compared to 34.6% in the thirty-nine weeks ended November 1, 2015. The increase in our effective tax rate is primarily due to the impact of state taxes and reduced leverage of FICA Tip Credits as a result of higher pre-tax income.

**Liquidity and Capital Resources**

We finance our activities through cash flow from operations and availability under our Credit Facility. As of October 30, 2016, we had cash and cash equivalents of \$14,724, net working capital deficit of \$124,731 and outstanding debt obligations of \$278,625. We also had \$206,984 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 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.

As of October 30, 2016, we expect our short-term liquidity requirements to include (a) approximately \$135,000 to \$145,000 of capital additions (net of tenant improvement allowances and other payments from landlords), (b) scheduled debt service payments under our Credit Facility of \$13,135 including interest payments of \$5,635 (c) lease obligation payments of \$83,957 and (d) estimated cash income tax payments of approximately \$47,000.

***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.

Effective June 7, 2016, our Board of Directors approved the terms of a share repurchase program, under which the Company is authorized to repurchase up to \$100,000 of its common shares through the end of fiscal 2018. The Company may repurchase shares on the open market, through privately negotiated transactions, and through trading plans designed to comply with Rule 10b5-1 of the Exchange Act. Purchases will be made at times and prices considered appropriate by management, subject to any applicable blackout periods. This authority will primarily be used to offset dilution caused by the issuance and exercise of stock options and other equity

## **Table of Contents**

compensation. This program will not impact our ability to execute our development plan or allocate capital for other corporate purposes such as remodeling, new games and maintenance. The share repurchase program may also be modified, suspended or discontinued at any time. During fiscal 2016, we have repurchased 170,615 shares at a total cost of \$7,364 under this program.

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

## **Borrowing Capacity**

During the second quarter of fiscal 2015, we refinanced our July 2014 credit facility with outstanding borrowings of \$430,000 and interest at LIBOR plus a spread ranging from 3.25% to 3.50%. Our current Credit Facility provides a \$150,000 term loan facility and a \$350,000 revolving credit facility and has 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 was established 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.

As of October 30, 2016, we had letters of credit outstanding of \$5,016 and \$206,984 of borrowing available under our Credit Facility.

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 total leverage 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 October 30, 2016 was 2.02%. The weighted average effective interest rate incurred on our borrowings under the Credit Facility was 2.52%. 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 \$88 at October 30, 2016, is included in Other assets and deferred charges in the Consolidated Balance Sheets and was valued using an analysis based on market observable inputs. 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 October 30, 2016, interest (income) expense includes \$(2) and \$357, respectively, related to the change in the fair value of the interest rate cap.

## **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<br/>Ended October 30, 2016</b> | <b>Thirty-nine Weeks<br/>Ended November 1, 2015</b> |
|----------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| <b>Net cash provided by (used in):</b> |                                                     |                                                     |
| Operating activities                   | \$ 174,550                                          | \$ 121,589                                          |
| Investing activities                   | (130,453)                                           | (117,523)                                           |
| Financing activities                   | (54,868)                                            | (55,613)                                            |

Net cash provided by operating activities was \$174,550 for the thirty-nine weeks ended October 30, 2016 compared to \$121,589 for the thirty-nine weeks ended November 1, 2015. 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.

**Table of Contents**

Net cash used in investing activities was \$130,453 for the thirty-nine weeks ended October 30, 2016 compared to \$117,523 for the thirty-nine weeks ended November 1, 2015. Capital expenditures increased \$12,401 to \$131,284 (excluding the increase in fixed asset accrued liabilities of \$18,978) in the thirty-nine weeks of fiscal 2016 from \$118,883 in the thirty-nine weeks of fiscal 2015. During the thirty-nine weeks of fiscal 2016, the Company spent \$88,039 (\$71,260 net of tenant improvement allowances from landlords) for new store construction, \$17,131 related to a major remodel project on six existing stores, several smaller scale remodel projects and operating improvement initiatives, \$15,048 for game refreshment and \$11,066 for maintenance capital.

Net cash used in financing activities was \$54,868 for the thirty-nine weeks ended October 30, 2016 compared to \$55,613 for the thirty-nine weeks ended November 1, 2015. Net repayments of debt of \$59,625 and \$74,875 in the thirty-nine week period ended October 30, 2016 and November 1, 2015, respectively, were partially offset by proceeds from stock option exercises and excess income tax benefits related to stock compensation plans of approximately \$12,044 and \$21,469 in the thirty-nine weeks ended October 30, 2016 and November 1, 2015, respectively. Additionally, cash used in financing activities for the thirty-nine weeks ended October 30, 2016, includes repurchases of common stock of \$7,364.

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 \$195,000 to \$200,000 (\$148,000 to \$153,000 net of tenant improvement allowances and other landlord payments) in capital additions during fiscal 2016. The fiscal 2016 additions are expected to include approximately \$158,000 to \$163,000 (\$111,000 to \$116,000 net of tenant improvement allowances and other landlord payments) for new store construction and operating improvement initiatives, including six store remodels, \$19,000 for game refreshment and \$18,000 in maintenance capital. A portion of the fiscal 2016 new store spend is related to stores that will be under construction in 2016 but will not be open until 2017.

***Contractual Obligations and Commercial Commitments***

The following tables set forth the contractual obligations and commercial commitments as of October 30, 2016:

**Payment due by period**

|                                      | <b>Total</b> | <b>1 Year<br/>or Less</b> | <b>2-3<br/>Years</b> | <b>4-5<br/>Years</b> | <b>After 5<br/>Years</b> |
|--------------------------------------|--------------|---------------------------|----------------------|----------------------|--------------------------|
| Credit Facility <sup>(1)</sup>       | \$ 278,625   | 7,500                     | 15,000               | 256,125              | \$                       |
| Interest requirements <sup>(2)</sup> | 19,318       | 5,635                     | 10,908               | 2,775                |                          |
| Operating leases <sup>(3)</sup>      | 1,041,292    | 83,957                    | 160,056              | 138,469              | 658,810                  |
| Total                                | \$ 1,339,235 | \$ 97,092                 | \$ 185,964           | \$ 397,369           | \$ 658,810               |

(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 October 30, 2016, we had borrowings of \$138,000 under the revolving credit facility, borrowings of \$140,625 under the term facility and \$5,016 in letters of credit outstanding.

(2)

The cash obligations for interest requirements consist of variable rate debt obligations at rates in effect at October 30, 2016.

- (3) Our operating leases generally provide for one or more renewal options. These renewal options allow us to extend the term of the lease for a specified time at an established annual lease payment. Future obligations related to lease renewal options that have been exercised or were reasonably assured to be exercised as of the lease origination date, have been included in the table above.

***Accounting Policies***

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 Form10-K filed with the SEC on March 29, 2016.

## **Table of Contents**

### ***Recent Accounting Pronouncements***

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

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

### **Commodity Price Risk**

We are exposed to market price fluctuation in food and beverage product prices. Given the historical volatility of certain of our food product prices, including proteins, seafood, produce, dairy products, and cooking oil, these fluctuations can materially impact our food costs. While our purchasing commitments partially mitigate the risk of such fluctuations, there is no assurance that supply and demand factors such as disease or inclement weather will not cause the prices of the commodities used in our restaurant operations to 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 October 30, 2016, one-month LIBOR was 0.53%. Assuming no change in the balance of the revolving portion of the credit facility, we estimate that a hypothetical 25 basis point increase in one-month LIBOR would increase our annualized interest expense in the next year by approximately \$715.

### **Inflation**

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

We have a substantial number of hourly employees who are paid wage rates at or based on the applicable federal, state or city minimum wage and increases in the minimum wage will increase our labor costs. As of January 1, 2016, the State of California (where ten of our stores are located) raised the state minimum hourly wage from \$9.00 per hour to \$10.00 per hour, with an additional \$0.50 increase scheduled for January 1, 2017. The State of New York (where nine of our stores are located) raised the state minimum tipped wage from \$5.00 per hour to \$7.50 per hour as of January 1, 2016. Additionally, several other states in which we operate have enacted legislation to increase minimum tipped wage rates by various amounts in the current year as well as in future years.

In general, we have been able to substantially offset cost increases resulting from inflation by increasing menu prices, improving productivity, or through other actions. 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.

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

There were no significant changes in our internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during our third quarter ended October 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****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 March 29, 2016.

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

Information regarding repurchase of our common stock during the thirteen weeks ended October 30, 2016:

| Period (1)                         | Total Number<br>of Shares<br>Repurchased | Average Price<br>Paid per Share | Approximate Dollar Value of<br>Shares That<br>May Yet Be<br>Repurchased   |                                  |        |
|------------------------------------|------------------------------------------|---------------------------------|---------------------------------------------------------------------------|----------------------------------|--------|
|                                    |                                          |                                 | Total Number of Shares<br>Repurchased<br>as Part of<br>Announced Plan (2) | Under the Plan<br>(in thousands) | (2)    |
| August 1, 2016 - August 28, 2016   | 27,098                                   | \$ 44.03                        | 27,098                                                                    | \$                               | 96,976 |
| August 29, 2016 - October 2, 2016  | 50,061                                   | \$ 42.85                        | 50,061                                                                    | \$                               | 94,831 |
| October 3, 2016 - October 30, 2016 | 55,062                                   | \$ 39.85                        | 55,062                                                                    | \$                               | 92,636 |

- (1) Monthly information is presented by reference to our fiscal periods during the thirteen weeks ended October 30, 2016.
- (2) Effective June 7, 2016, our Board of Directors approved a share repurchase program authorizing up to \$100,000 in share repurchases through February 3, 2019, the end of our 2018 fiscal year. The Company may repurchase shares on the open market, through privately negotiated transactions, and through trading plans designed to comply with Rule 10b5-1 of the Exchange Act. The share repurchase program may be modified, suspended or discontinued at any time.

---

**Table of Contents**

**ITEM 6. EXHIBITS**

**Exhibit**

| <b>Number</b> | <b>Description</b>                                                                                                                                                                                                |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1*         | Certification of Stephen M. King, Chief Executive Officer 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 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

**Table of Contents**

**SIGNATURES**

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

DAVE & BUSTER S ENTERTAINMENT, INC.,

a Delaware corporation

Date: December 6, 2016

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

Date: December 6, 2016

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