

Dave & Buster's Entertainment, Inc.
Form 10-K
April 02, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED February 3, 2019

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File No. 001-35664

Dave & Buster's Entertainment, Inc.

(Exact name of registrant as specified in its charter)

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

Securities registered pursuant to Section 12(b) of the Act:

| | |
|---|---|
| Title of each class | Name of exchange on which registered |
| Common Stock \$0.01 par value | NASDAQ Stock Market LLC |
| Securities registered pursuant to Section 12(g) of the Act: None | |

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or informational statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging Growth Company

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

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

As of August 5, 2018, the aggregate market value of the registrant's outstanding common equity held by non-affiliates was \$1,920,871,669.

The number of shares of the Issuer's common stock, \$0.01 par value, outstanding as of March 26, 2019, was 36,604,531 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III hereof incorporates certain information by reference from the registrant's definitive proxy statement for its 2019 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission not later than 120 days after the close of the registrant's fiscal year ended February 3, 2019.

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PART I

ITEM 1. Business

Dave & Buster's Entertainment, Inc. ("D&B Entertainment") is a leading owner and operator of high-volume entertainment and dining venues ("stores") that operate under the name "Dave & Buster's". The core of our concept is to offer our customers the opportunity to "Eat Drink Play and Watch" all in one location, providing a fun, upbeat atmosphere with interactive entertainment options for adults and families, while serving high-quality food and beverages. We opened the first Dave & Buster's store in Dallas, Texas in 1982, and as of February 3, 2019 (the last day of fiscal 2018), we owned and operated 121 stores located in 39 states, Puerto Rico and one Canadian province. Subsequent to the end of fiscal 2018, we closed our store in Duluth (Atlanta), Georgia on March 3, 2019. Unless otherwise provided in this Annual Report on Form 10-K, references to "Dave & Buster's", "we", "us", "our" or the "Company" refer to D&B Entertainment and its wholly-owned subsidiaries and any predecessor entities.

Our fiscal year consists of 52 or 53 weeks ending 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 2017 contained 53 weeks. Fiscal 2018, 2016, 2015, and 2014, each contained 52 weeks. We refer to our fiscal years as 2018, 2017, 2016, 2015, and 2014 throughout this Annual Report on Form 10-K. All dollar amounts are presented in thousands, unless otherwise noted, except share and per share amounts.

Eat Drink Play and Watch - All Under One Roof

We have developed a distinctive brand based on our customer value proposition: "Eat Drink Play and Watch". The interaction between playing games, watching sports, dining and enjoying our full-service bar areas is the defining feature of the Dave & Buster's customer experience, and the layout of each store is designed to promote crossover between these activities. We believe this combination creates an experience at a single location that cannot be easily replicated elsewhere. Our stores are also designed to accommodate premium sports viewing events, private parties, business functions and other corporate-sponsored 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.

Eat

We strive to differentiate our food from other casual dining concepts with our new "Crafting Craveability" strategy. This was developed to help us serve quality, flavorful and craveable food offerings. We have made improvements to many of our food items, including upgrading to all-natural chicken breasts and 100% Angus butcher's blend burgers. In addition, there has been a renewed focus on cooking technique and execution. We have also significantly reduced the number of menu items to enable better execution.

While our menu appeals to a broad spectrum of customers, we continue to evolve it to reflect the changing tastes of our 21-39 year-old primary target guests, with options for full meals as well as grabbing an appetizer to share with friends. We deliver high-quality offerings, including a wide variety of starters, one-of-a-kind burgers, choice-grade steaks, and health-conscious options comparable to those of other higher-end casual dining operators. We believe our broad menu offers something for everyone and is appropriate for many different occasions. To ensure that we stay on-trend with societal shifts, we roll out menus that feature new food items two times a year.

Our food revenues, which include non-alcoholic beverages, accounted for approximately 68% of our food and beverage revenues and approximately 29% of our total revenues during fiscal 2018.

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Drink

Each of our locations also offers full bar service, including a variety of beers, hand-crafted cocktails, and premium spirits. We are executing the Crafting Craveability strategy in beverage as well. We have re-crafted recipes, switched to more fresh juices and purees and house-made mixers. We have also reduced the number of featured cocktails in our beverage menu to improve focus and execution by our bartender staff. Beverage service is typically available throughout the entire store, allowing for multiple point of sale opportunities. We believe that our high margin beverage offering is complementary to each of the Eat, Play and Watch aspects of our brand. Our alcoholic beverage revenues accounted for approximately 32% of our total food and beverage revenues and approximately 13% of our total revenues during fiscal 2018.

Play

The games in our Midway are a key aspect of the Dave & Buster's entertainment experience, which we believe is the core differentiating feature of our brand. The Midway in each of our stores is an area where we offer a wide array of amusement and entertainment options, some of which are exclusive to Dave & Buster's on a permanent or temporary basis. Each of our stores typically has 150 redemption and simulation games as well as our proprietary virtual reality platform that we introduced in fiscal 2018. Most of our games are activated by game play credits on cards or other RFID devices (collectively, Power Cards). A customer purchases the game play credits or chips at an automated kiosk, through a mobile application or from an employee. Our amusement and other revenues accounted for approximately 58% of our total revenues during fiscal 2018. Redemption games, which represented approximately 74% of our amusement and other revenues in fiscal 2018, offer our customers the opportunity to win tickets that are redeemable at a retail-style space in our stores that we have branded WIN!, with prizes ranging from branded novelty items to high-end electronics. We believe this opportunity to win creates a fun and highly energized social experience that is an important aspect of the Dave & Buster's in-store experience and cannot be easily replicated at home. Many of our non-redemption games, which include our virtual reality, video and simulation offerings, can be played by multiple customers simultaneously and include some of the latest high-tech games that are commercially available. These games represented approximately 23% of our amusement and other revenues in fiscal 2018. Other traditional amusements, such as billiards and bowling, represented the remainder of our amusement revenues in fiscal 2018.

Watch

Sports-viewing is another key component of the entertainment experience at Dave & Buster's. All of our stores have multiple large screen televisions and high-quality audio systems providing customers with a venue for watching live sports and other televised events. Our D&B Sports areas provide an immersive viewing environment that provides customers with an average of 40 televisions, including 100+ inch high definition televisions, to watch televised events and enjoy our full bar and extensive food menu. We believe that we have created an attractive and comfortable environment that includes a differentiated and interactive viewing experience that offers a reason for customers to visit Dave & Buster's. Through continued development of the D&B Sports concept in new stores and additional renovations of existing stores, our goal is to build awareness of D&B Sports as the best place to watch sports and the only place to watch the games and play the games.

Our Company's Core Strengths

We believe we benefit from the following strengths:

Strong, distinctive brand with broad customer appeal. We believe that the multi-faceted customer experience of Eat Drink Play and Watch at Dave & Buster's, supported by our national marketing, has helped us create a widely

recognized brand with no direct national competitor that combines all four elements in the same way. Nationally, over 80% of casual dining customers stated that they are aware of our brand as a dining and entertainment venue. Our customer research shows that our brand appeals to a relatively balanced mix of

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male and female adults, which is moderately skewed to males, primarily between the ages of 21 and 39, as well as families and teenagers. Based on customer survey results, we also believe that the average annual household income of our customers is approximately \$75, which we believe represents an attractive demographic.

Multi-faceted customer experience highlights our value proposition. We believe that our combination of interactive games, attractive television viewing areas, high-quality dining and full-service beverage offerings, delivered in a highly-energized atmosphere, provides a multi-faceted customer experience that cannot be easily replicated at home or elsewhere without having to visit multiple destinations. We aim to offer our customers a value proposition comparable or superior to many of the separately available dining and entertainment options. We are continuously working with game manufacturers and others to create new games and attractions that include content that is exclusively available at Dave & Buster's on a permanent or temporary basis. Our new games in combination with new food and beverage offerings and focused attention to the customer experience help us to retain and generate customer traffic. Our value proposition is enhanced by marketing initiatives, including free game play that often features the introduction of our new games, Super Charge Power Card offerings (when purchasing or adding value to a Power Card, the customer is given the opportunity to add more chips to the Power Card at a lower cost per chip amount), and Half-Price Game Play (every Wednesday, from open to close, we reduce the price of every game in the Midway by one-half). In addition, we expanded the All You Can Eat wings limited time promotional offer in fiscal 2018. We believe these initiatives have helped increase customer visits and encourage customers to participate more fully across our broad range of food, beverage and entertainment offerings.

Vibrant, contemporary store design that integrates entertainment and dining. We continue to enhance the Dave & Buster's brand through our store design, including our D&B Sports concept. Our core store design provides a contemporary, engaging atmosphere for our customers with clearly differentiated spaces designed to convey the components of our customer value proposition: Eat Drink Play and Watch. During fiscal 2017, we developed a new store design that we refer to as the 17K. The 17K format will allow us to enter smaller markets than our traditional stores. During fiscal 2018 we opened two stores utilizing the 17K format. The 17K format retains the Play components of our large and small formats, combines the Eat and Watch elements in an expanded sports viewing area and maintains the ability to Drink throughout the facility. This new design will be utilized in addition to our large and small formats in future expansion. Our core store design in all our formats includes a modern approach to the finishes and layout of the store, which we believe encourages participation across each of the store's elements. The oversized graphics and images throughout the store are intended to communicate our brand personality by being fun, contemporary and larger-than-life. The dining room décor includes booth and table seating and colorful artwork, often featuring local landmarks. Our WIN! area provides a retail-like environment where customers can redeem their tickets for prizes. We believe our D&B Sports area provides an attractive opportunity to market our broader platform to new and existing customers through a year-round calendar of programming and promotions tied to popular sporting events and sport-related activities. The large television screens, comfortable seating, a full menu of food and beverages and artwork often featuring images of local sports teams and sports icons help create what we believe to be an exciting environment for watching sports programming.

Strong history of growth. We have a proven track record of improving operating results and expanding the footprint of our brand and over the past five fiscal years, we have increased our net income by \$115,052, EBITDA margins by approximately 370 basis points and our Adjusted EBITDA Margins (both defined in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures) by approximately 430 basis points. We expect our continued focus on operating performance at individual stores and leveraging general and administrative expense and advertising expense will positively impact operating margins and will partially offset pressure from wage inflation and occupancy costs, although there is no guarantee that our efforts will be successful.

Store model generates favorable store economics and strong returns. We believe our store model offering entertainment, food and beverages provides certain benefits in comparison to traditional restaurant concepts, as

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reflected by our fiscal 2018 average annual comparable store revenues of \$11,100, average comparable store operating income margins of 21.7% and comparable Store Operating Income Before Depreciation and Amortization Margins (defined in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures) of 30.4%.

Our entertainment offerings have low variable costs and produced gross margins of 88.9% for fiscal 2018. With approximately 58% of our revenues from entertainment, we have less exposure than traditional restaurant concepts to food costs, which represented only 8% of our total revenues in fiscal 2018. Our business model generates strong cash flow that we can use to execute our growth strategy. We believe the combination of our operating income margins, our Store Operating Income Before Depreciation and Amortization Margins, our refined new store formats and the fact that our stores typically open with high volumes that drive margins in year one will help us achieve our targeted average year one cash-on-cash returns of approximately 35% and five-year average cash-on-cash returns in excess of 25% for both our large format and small format store openings, however there is no guarantee such results will occur with future store openings. The 62 stores that we have opened since the beginning of 2008 (that have been open for more than 12 months as of February 3, 2019) have generated average year one cash-on-cash returns of approximately 53%. The 54 stores that opened subsequent to fiscal 2010 have generated average year one cash-on-cash returns of approximately 56%. We define and calculate cash-on-cash returns for an individual store as (a) Store Operating Income Before Depreciation and Amortization, excluding pre-opening expenses, national marketing expense allocation, non-cash charges related to asset disposals, currency transactions and changes in non-cash deferred amusement revenue and ticket liability, divided by (b) our net development costs. Net development costs include equipment, building, leaseholds and site costs, net of tenant improvement allowances and other landlord payments, excluding pre-opening costs and capitalized interest.

Commitment to customer satisfaction. We aim to enhance our combination of food, beverage and entertainment offerings through our service philosophy of providing a high quality and consistent customer experience through dedicated training and development of our team members and a corporate culture that encourages employee engagement. In 2018, 85.7% of respondents to our Guest Satisfaction Survey rated us Top Box (score of 5 out of a possible 5) in Overall Experience and 86.7% of respondents rated us Top Box in Intent to Recommend. By comparison, in 2012, 80.6% of respondents rated us Top Box in Overall Experience and 83.6% of respondents rated us Top Box in Intent to Recommend. We utilize our loyalty program to market directly to members with promotional emails and location-based marketing. Through our loyalty program, we email offers and coupons to members and notify them of new games, food, drinks and local events. In addition, members can earn game play credits based on the dollar amount of qualifying purchases at our stores. We expect that as our loyalty program grows it will be an important method of maintaining customers' connection with our brand and further drive customer satisfaction.

Experienced management team. We believe we are led by a strong senior management team averaging over 20 years of experience with national brands in all aspects of casual dining, entertainment and other consumer centric operations. We believe that our management team's prior experience combined with its experience at Dave & Buster's provides us with insights into our customer base and enables us to create the dynamic environment that is core to our brand.

Our Growth Strategies

The operating strategy that underlies the growth of our concept is built on the following key components:

Drive our comparable store sales. We intend to grow our comparable store sales in the highly competitive dining and entertainment segment by seeking to differentiate the Dave & Buster's brand from other food and entertainment alternatives, through the following strategies:

Introduce compelling content in our amusements. We believe that our Midway games are the core differentiating feature of the Dave & Buster's brand and staying current with the latest offerings creates

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new content and excitement to drive repeat visits and increase length of customer stay. We plan to continually update our games each year through development of innovative and proprietary games and the purchase of new games that will resonate with our customers and drive brand relevance due to a variety of factors, including their large scale, eye-catching appearance, virtual reality features, association with recognizable brands or the fact that they cannot be easily replicated at home. We aim to leverage our investment in games by featuring exclusive game offerings in our marketing initiatives. We also plan to continually elevate the redemption experience in our WIN! area with prizes that we believe customers will find more attractive, which we expect will favorably impact customer visitation and game play.

Leverage D&B Sports. We intend to continue leveraging our investments in D&B Sports by building awareness of Dave & Buster's as the only place to watch the games and play the games through national cable advertising. In addition, we are strategically optimizing our year-round sporting and pay-per-view content to drive increased traffic and capture a higher share of the sports-viewing customer base.

Continually enhance our food and beverage offerings. Our menu has a variety of items, from hamburgers to steaks to salads that represent our Crafting Craveability mantra. We aim to ensure a pipeline for two new menu launches each year, as well as two to three limited time offers. This strategy has been well received by our customers as the percentage of customers rating our food quality as Excellent was 85.5% in fiscal 2018. Similarly, the percentage of customers rating our beverage quality as Excellent in fiscal 2018 was 89.1%.

Grow our special events usage. The special events portion of our business represented 9.8% of our total revenues in fiscal 2018. 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. We plan to leverage our existing special events sales force and call center to attract new corporate customers. In addition, we will continue to expand our online booking capability beyond strictly social events.

Enhance brand awareness and generate additional visits to our stores through marketing and promotions. We believe offering new items from each of the Eat Drink Play and Watch pillars will keep the brand relevant to customers and drive traffic and frequency. We typically have seven-to-nine key promotional periods each year when we feature this New News in national advertising. To increase national awareness of our brand, we plan to continue to invest a significant portion of our marketing expenditures in national cable television advertising, while also increasing our investment in digital media. Our messaging focuses on promoting our capital investments in new games, and new food and beverage offerings. We also have customized local store marketing programs to increase new visits and repeat visits to individual locations. We will continue to utilize our loyalty program and digital efforts to communicate promotional offers directly to our most passionate brand fans, and we are aggressively optimizing our search engine and social marketing efforts.

Drive customer frequency through greater digital and mobile connectivity. We believe that there is potential to increase customer frequency by enhancing the in-store and out-of-store customer experience via digital and mobile strategic initiatives. We continue to optimize our search, programmatic media and paid social media to create customer engagement and drive recurring customer visitation. In addition, we will continue to leverage our customer relationship management program and our growing loyalty database, by delivering

more targeted individualized offers and creative content.

Build great new stores. We will continue to pursue what we believe to be a disciplined new store growth strategy in both new and existing markets where we feel we are capable of achieving targeted revenue levels, operating income margins and Store Operating Income Before Depreciation and Amortization Margins as well as strong cash-on-cash returns. We believe that the Dave & Buster's brand has significant growth opportunities, as

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internal studies and third-party research suggests a total store potential in the United States and Canada in excess of 230 stores (including our 121 stores as of the end of fiscal 2018). We anticipate that approximately 25% of our future new store openings will utilize our new 17K design and that the balance of our future openings will be fairly evenly split between our traditional large and small formats. We opened fifteen stores in fiscal 2018. Store openings during the past six fiscal years were primarily financed with available cash and operating cash flows. In 2019 and the near future, we believe that we can continue opening new stores at an annual growth rate of 10% or more of our then existing store base.

Our store expansion strategy is driven by a site selection process that allows us to evaluate and select the location, size and design of our stores based on consumer research and analysis of operating data from sales in our existing stores. Our site selection process and flexible store design enable us to customize each store with the objective of maximizing return on capital given the characteristics of the market and the location. Our current store large formats are 30,001 to 45,000 square feet in size and our current store small formats span 25,000 to 30,000 square feet. Our small and 17K formats provide us the flexibility to enter new smaller markets and further penetrate existing markets. Our various store formats also provide us with the ability to strategically choose between building new stores and converting existing space, which can be more cost efficient for certain locations. We are targeting average year one cash-on-cash returns of approximately 35% for both our large format and small format stores and approximately 25% for the 17K format. To achieve this return for large format stores, we target average net development costs of approximately \$8,300 to \$8,800 and first-year store revenues of approximately \$10,000 to \$12,200. For small format stores, we target average net development costs of approximately \$6,800 and average first year store revenues of approximately \$8,700. For 17K format stores, we target average net development costs of approximately \$5,000 and first-year store revenues of approximately \$5,000. Additionally, for both large format and small format stores, we target average year one margins on operating income (excluding allocated national marketing costs) of approximately 18%, and Store Operating Income Before Depreciation and Amortization (excluding allocated national marketing costs) of approximately 29%. For our 17K format store, we target average year one margins on operating income (excluding allocated national marketing costs) of approximately 12% and Store Operating Income Before Depreciation and Amortization (excluding allocated national marketing costs) of approximately 25%.

Expand the Dave & Buster's brand internationally. We believe that in addition to the growth potential that exists in North America, the Dave & Buster's brand can also have significant appeal in certain international markets. We are currently assessing these opportunities while maintaining a conservative and disciplined approach towards the execution of our international development strategy. As such, we have retained the services of a third-party consultant to assist in identifying and prioritizing potential markets for expansion as well as potential franchise or joint venture partners. Thus far, we have identified our international market priorities and begun the process of identifying potential international partners.

Site Selection

We believe that the location of stores is critical to our long-term success. The experience and relationships of our current development team has enabled us to focus our attention on the most relevant network of real estate brokers, which has given us access to a larger pool of qualified potential store sites. In addition, we believe the more contemporary look of our stores has been one of the key drivers in attracting new developers and building our new store pipeline. We devote significant time and resources to strategically analyze each prospective market, trade area and site. We continually identify, evaluate and update our database of potential locations for expansion. We base new site selection on an analytical evaluation of a set of drivers we believe increase the probability of successful, high-volume stores.

Our Store Formats

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We currently operate stores varying in size from 16,000 to 66,000 square feet. To optimize sales per square foot and further enhance our store economics, the target size of our future large format stores is expected to be

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between 30,001 and 45,000 square feet while our small format stores span 25,000 to 30,000 square feet. Additionally, our newly-developed 17K design which will span 15,000 to 20,000 square feet, should allow us to enter markets with store size requirements less than our traditional large and small store formats. Our initial stores with this new design opened in fiscal 2018 in Rogers, Arkansas and Corpus Christi, Texas.

We utilize smaller format stores to penetrate less densely populated markets and backfill existing markets. The smaller format has reduced the back-of-house space and optimized the sales area dedicated to video and redemption games. We believe that the smaller format maintains the dynamic customer experience that is the foundation of our brand and allows us flexibility in our site selection process. We also believe that the smaller store format allows us to take less capital investment risk per store. As a result, we expect these smaller format stores to enable us to expand into additional markets. We anticipate that approximately 25% of our future new store openings will utilize our new 17K design and that the balance of our future openings will be fairly evenly split between our traditional large and small formats. At February 3, 2019, 23 of our 121 operating stores were the small store format and two were the new 17K format. Our fiscal 2018 new store openings included eleven large format stores, two small format stores and two 17K format stores.

Marketing, Advertising and Promotion

Our corporate marketing department manages all consumer-focused initiatives for the Dave & Buster's brand. In order to drive sales and expand our customer base, we focus our efforts in three key areas:

Marketing: national advertising, media (linear and digital), promotions, in-store merchandising, pricing

Food and beverage: menu and product development

Customer insights: research, brand health and tracking

We spent approximately \$40,767 in marketing efforts in fiscal 2018, \$37,876 in fiscal 2017, and \$33,795 in fiscal 2016. Our annual marketing expenditures include the cost of national television and radio advertising totaling \$30,437, \$30,003, and \$25,845, in fiscal years 2018, 2017, and 2016, respectively.

We continually seek to improve our marketing effectiveness through a number of initiatives, including:

refining our marketing strategy to better reach both young adults and families;

creating new advertising campaigns;

investing in menu research and development to differentiate our food offerings from our competition and improve key product attributes (quality, consistency, value and overall customer satisfaction) and execution;

developing product/promotional strategies to attract new customers and increase spending/length of stay;

leveraging our loyalty database to create stronger relationships with consumers to engage and motivate them to visit; and

reflecting a consistent brand identity that represents our positioning and commitment to quality.

To drive traffic and increase visit frequency and average check size, the bulk of our marketing budget is allocated to national cable television media. To enhance that effort, we also:

conduct digital initiatives including search engine marketing, mobile campaigns, programmatic marketing and social media;

maintain and optimize the website for search;

run in-store promotions and create point-of-purchase materials;

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leverage the customer loyalty program, including promotional and trigger emails; and

create local marketing plans to address specific objectives in individual stores or markets.

We work with external advertising, digital, media and design agencies in the development and execution of these programs.

Special Event Marketing

Our corporate and group sales programs are managed by our sales department, which provides direction, training, and support to the special events managers and their teams within each store. They are supported by a special events call center located at our corporate office, targeted print and online media plans, as well as promotional incentives at appropriate times during the year. In addition, we have online booking for social parties in order to provide additional convenience in booking events for our customers.

Operations

Management

Our typical store team consists of a General Manager supported by an average of nine additional management positions. There is a defined structure of development and progression of job responsibilities from Area Operations Manager through various positions up to the General Manager role. This structure ensures that an adequate succession plan exists within each store. Each management member handles various departments within the store including responsibility for hourly employees. A typical store employs approximately 120 hourly employees, most of whom work part time. The General Manager and the management team are responsible for the day-to-day operation of that store, including the hiring, training and development of team members, as well as financial and operational performance. Each store is overseen by a Regional Operations Manager, Regional Operations Director or Vice President of Operations (collectively, *Regional Management*) who directly or indirectly report to our Chief Operating Officer. Our stores are generally open seven days a week, 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.

Operational Tools and Programs

Our managers have daily routines focused on driving consistent execution in food, beverage and gaming. We utilize a customized food and beverage analysis program that determines the theoretical food and beverage costs for each store and provides additional tools and reports to help us identify opportunities, including waste management. In addition to our own routines, we leverage a third-party vendor to help ensure quality beverage operations, responsible alcohol service and loss prevention. A mobile salesmanship application with daily sales contests is used by our management team to evaluate sales performance by shift and to drive staff engagement. We have developed tools to forecast sales and schedule labor to assist our managers in optimizing hourly labor based on anticipated sales volumes. This program was enhanced during fiscal 2018 with the introduction of a new workforce management platform which offers real time data that allows management to quickly add or reduce labor based on business needs. Our amusement team uses a proprietary system that is supported by a mobile application that identifies gaming issues and needed repairs to help ensure our games are operational and meeting our ideal playing standard. Complementing this program is our routine preventative maintenance program, designed to prevent game failure and extend the functionality of our midway games. To maximize the performance of our new store openings, we have a *New Store Gold Card* process that defines a clear path and timeline to bring each new store in line with our established store efficiencies. Consolidated reporting tools for the key drivers of our business are provided to our Regional Management to identify

and troubleshoot any systemic issues.

Management Information Systems

We utilize a number of proprietary and third-party management information systems. These systems are designed to enable our games functionality, improve operating efficiencies, provide us with timely access to

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financial and marketing data and reduce store and corporate administrative time and expense. We believe our management information systems are sufficient to support our store expansion plans.

Training

We strive to maintain quality and consistency in each of our stores through the careful training and supervision of our team members and the establishment of, and adherence to, high standards relating to personnel performance, food and beverage preparation, game playability and maintenance of our stores. We provide all new team members with complete orientation and one-on-one training for their positions to help ensure they are able to meet our high standards. All of our new team members are trained by partnering with a certified trainer to assure that the training and information they receive is complete and accurate. Team members are certified for their positions by passing a series of tests, including alcohol awareness training.

We require our new store managers to complete an eight-week training program that includes front-of-house service, kitchen, amusements and management responsibilities. Newly trained managers are then assigned to their home store where they receive additional training with their General Manager. We place a high priority on our continuing management development programs in order to ensure that qualified managers are available for our future openings. We conduct semi-annual evaluations with each manager to discuss prior performance and future performance goals. We hold an annual General Manager conference in which our General Managers share best practices and also receive an update on our business plan.

When we open a new store, we provide varying levels of training to team members in each position to ensure the smooth and efficient operation of the store from the first day it opens to the public. Prior to opening a new store, our dedicated training and opening team travels to the store to prepare for an intensive two-week training program for all team members hired for the new store opening. Part of the training team stays on site during the first week of operation. We believe this additional investment in our new stores is important, because it helps us provide our customers with a quality experience from day one.

After a store has been opened and is operating smoothly, the store managers supervise the training of new team members.

Recruiting and Retention

We seek to hire experienced managers and team members and offer competitive wage and benefit programs. Our store managers all participate in a performance-based incentive program that is based on sales and profit goals. In addition, our salaried and hourly employees are also eligible to participate in a 401(k) plan, medical/dental/vision insurance plans and receive vacation/paid time off based on tenure. Additionally, General Managers are eligible for long-term incentive awards depending upon operating performance.

Food Preparation, Quality Control and Purchasing

We strive to maintain high food quality standards. To ensure our quality standards are met, we negotiate directly with independent producers of food products. We provide detailed quality and yield specifications to suppliers for our purchases. Our systems are designed to protect the safety and quality of our food supply throughout the procurement and preparation process. Within each store, the Kitchen Manager is primarily responsible for ensuring the timely and correct preparation of food products, per the recipes we specify. We provide each of our stores with various tools and training to facilitate these activities.

Foreign Operations

We own and operate two stores outside of the United States, in the Canadian province of Ontario, including one that opened during the fourth quarter of fiscal 2016. These stores generated revenues of approximately

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\$18,848, \$20,075 and \$13,369 in fiscal 2018, 2017 and 2016, respectively, representing approximately 1.5%, 1.8%, and 1.3%, respectively, of our consolidated revenues. As of February 3, 2019, less than 2.0% of our long-lived assets were located outside of the United States.

The foreign activities of these stores are subject to various risks of doing business in a foreign country, including currency fluctuations, changes in laws and regulations and economic and political stability. We do not believe there is any material risk associated with the Canadian operations or any dependence by the domestic business upon the Canadian operations.

Store-Level Quarterly Fluctuations and Seasonality

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

Suppliers

The principal goods used by us are redemption game prizes and food and beverage products, which are available from a number of suppliers. We currently purchase a significant amount of our amusement merchandise through a direct import program, a program in which we purchase WIN! merchandise and certain glassware, plateware and furniture directly from offshore manufacturers. We are a large buyer of traditional and amusement games and as a result believe we receive discounted pricing arrangements. Federal and state health care mandates and mandated increases in the minimum wage and other macro-economic pressures could have the repercussion of increasing expenses, as suppliers may be adversely impacted and seek to pass on higher costs to us.

Competition

The out-of-home entertainment market is highly competitive. We compete for customers' discretionary entertainment dollars with providers of out-of-home entertainment, including localized attraction facilities such as movie theaters, sporting events, bowling alleys, sports activity centers, arcades and entertainment centers, night clubs and restaurants as well as theme parks. We also face competition from local, regional and national establishments that offer entertainment experiences similar to ours and restaurants that are highly competitive with respect to price, quality of service, location, ambience and type and quality of food. Some of these establishments may exist in multiple locations, and we may also face competition on a national basis in the future from other concepts that are similar to ours. We also face competition from increasingly sophisticated home-based forms of entertainment, such as internet and video gaming and home movie streaming and delivery.

Intellectual Property

We have registered the trademarks Dave & Buster[®], Power Card[®], Eat & Play Combo[®], Eat Drink Play[®], and Eat Drink Play Watch[®], and have registered or applied to register certain additional trademarks with the United States Patent and Trademark Office and in various foreign countries. We consider our tradename and our logo to be important features of our operations and seek to actively monitor and protect our interest in this property in the various jurisdictions where we operate. We also have certain trade secrets, such as our recipes, processes, proprietary information and certain software programs that we protect by requiring all of our employees to sign a code of ethics, which includes an agreement to keep trade secrets confidential.

Employees

As of February 3, 2019, we employed 16,098 persons, 285 of whom served at our corporate headquarters, 1,219 of whom served as management personnel and the remainder of whom were hourly personnel.

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None of our employees are covered by collective bargaining agreements and we have never experienced an organized work stoppage, strike or labor dispute. We believe working conditions and compensation packages are competitive with those offered by competitors and consider our relations with our employees to be good.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) are available free of charge through our internet website, at www.daveandbusters.com, as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC). Such reports may also be obtained on the SEC 's website at www.sec.gov. Information on our corporate governance principles and practices can also be found on our website.

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ITEM 1A. Risk Factors

An investment in our common stock involves risk and uncertainties. In addition to the information contained elsewhere in this Report and other filings that we make with the SEC, the following risk factors should be carefully considered in evaluating our business or making an investment decision involving our common stock. The occurrence of any of the following risks could harm our business, financial conditions and results of operations, cash flows and/or the trading price of our common stock. In addition, our actual performance could differ materially from any results expressed or implied by forward-looking statements contained in this Report, in any of our other filings with the SEC and other communications by us, both written and oral, depending on a variety of factors, including the risks and uncertainties described below. Our business is also subject to general risks and uncertainties that affect many other companies, including, but not limited to, overall economic and industry conditions, and additional risks and uncertainties that are currently not known or believed by us to be immaterial may also have a material negative impact on our business, financial condition and results of operations.

Our growth strategy depends on our ability to open new stores and operate them profitably.

A key element of our growth strategy is to open additional stores in locations that we believe will provide attractive returns on investment. Our ability to open new stores on a timely and cost-effective basis, or at all, is dependent on numerous factors, many of which are beyond our control, including our ability to:

find quality locations;

reach acceptable agreements regarding the lease or purchase of locations;

comply with applicable zoning, licensing, land use and environmental regulations;

raise or have available an adequate amount of cash or currently available financing for construction and opening costs;

timely hire, train and retain the skilled management and other employees necessary to meet staffing needs;

obtain, for acceptable cost, required permits and approvals, including liquor and amusement licenses; and

efficiently manage the amount of time and money used to build and open each new store.

If we succeed in opening new stores on a timely and cost-effective basis, we may nonetheless be unable to attract enough customers to new stores because potential customers may be unfamiliar with our stores or concept, or our entertainment and menu options might not appeal to them. Our new stores may not meet or exceed the performance of our existing stores or meet or exceed our performance targets, including target cash-on-cash returns. New stores may even operate at a loss, which could have a significant adverse effect on our overall operating results. If the expected future cash flows for a store are less than the asset carrying amount (an indication that the carrying amount may not be recoverable), we may recognize an impairment loss in an amount equal to the excess of the asset carrying amount over

the fair value. Opening a new store in an existing market could reduce the revenue at our existing stores in that market. In addition, historically, new stores experience a decline in revenues after their first year of operation. Typically, this decline has been temporary and has been followed by changes in comparative store revenue in line with the rest of our comparable store base, but there can be no assurance that this will be the case in the future or that a new store will succeed in the long term.

Our expansion into new markets may present increased risks due to our unfamiliarity with the area.

Some of our new stores will be in areas where we have little or no meaningful experience. Those markets may have different competitive conditions, local regulatory requirements, consumer tastes and discretionary spending patterns than our existing markets, which may cause our new stores to be less successful than stores in

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our existing markets. In addition, our national advertising program may not be successful in generating brand awareness in all local markets, and the lack of market awareness of the Dave & Buster's brand can pose an additional risk in expanding into new markets. Stores opened in new markets may open at lower average weekly revenues than stores opened in existing markets and may have higher store-level operating expense ratios than stores in existing markets. Sales at stores opened in new markets may take longer to reach average store revenues, if at all, thereby adversely affecting our overall profitability.

In addition, we intend to establish stores outside of the United States and Canada. In addition to the risks posed by new markets generally, the operating conditions in overseas markets may vary significantly from those we have experienced in the past, including in relation to consumer preferences, regulatory environment, currency risk, the presence and cooperation of suitable local partners and availability of vendors or commercial and physical infrastructure, among others. There is no guarantee that we will be successful in integrating these new stores into our operations, achieving market acceptance, operating these stores profitably, and maintaining compliance with the rapidly changing business and regulatory requirements of new markets. If we are unable to do so, we could suffer a material adverse effect on our business, financial condition and results of operations.

We may not be able to compete favorably in the highly competitive out-of-home and home-based entertainment and restaurant markets, which could have a material adverse effect on our business, results of operations or financial condition.

The out-of-home entertainment market is highly competitive. We compete for customers' discretionary entertainment dollars with providers of out-of-home entertainment, including localized attraction facilities such as movie theatres, sporting events, bowling alleys, sports activity centers, arcades and entertainment centers, nightclubs and restaurants as well as theme parks. Many of the entities operating these businesses are larger and have significantly greater financial resources, a greater number of stores, have been in business longer, have greater name recognition and are better established in the markets where our stores are located or are planned to be located. As a result, they may be able to invest greater resources than we can in attracting customers and succeed in attracting customers who would otherwise come to our stores. The legalization of casino gambling in geographic areas near any current or future store and the expanded availability of online sports betting would create the possibility for entertainment alternatives, which could have a material adverse effect on our business and financial condition. We also face competition from local, regional and national establishments that offer similar entertainment experiences to ours and restaurants that are highly competitive with respect to price, quality of service, location, ambience and type and quality of food. We also face competition from increasingly sophisticated home-based forms of entertainment, such as internet and video gaming and home movie streaming and delivery. Our failure to compete favorably in the competitive out-of-home and home-based entertainment and restaurant markets could have a material adverse effect on our business, results of operations and financial condition.

Our sales growth and ability to achieve profitability are impacted by our comparable store sales, and there are material risks to our ability to increase such sales.

Comparable store sales are a year-over-year comparison of sales at stores open at the end of the period which have been open for at least 18 months as of the beginning of each of the fiscal years. It is a key performance indicator used within the industry and is indicative of acceptance of our initiatives as well as local economic and consumer trends. The level of comparable store sales will affect our sales growth and will continue to be a critical factor affecting our ability to generate profits because the profit margin on comparable store sales is generally higher than the profit margin on new store sales. Our ability to increase comparable store sales depends on many factors, including perceptions of our brand, competition, our ability to increase menu or game prices without adversely impacting traffic counts, executing our marketing strategies effectively, changes in consumer preferences and discretionary spending

for multiple reasons including an economic downturn or slower growth, transfer sales from new store openings, weather and changes in government regulations, among others. Many of these factors are beyond our control, and there is no guarantee that management initiatives to increase comparable store sales will be successful.

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Our revenues generally fluctuate due to the seasonality of our business and other events.

Our operating results may fluctuate significantly due to seasonal factors. Typically, we have higher revenues associated with the spring and year-end holidays. Our third quarter, which encompasses the back-to-school fall season, has historically had lower revenues as compared to other quarters. As a result, factors affecting peak seasons could have a disproportionate effect on our results. For example, the number of days between Thanksgiving and New Year's Day and the days of the week on which Christmas and New Year's Eve fall affect the volume of business we generate during the December holiday season and can affect our results for the full fiscal year. In addition, unfavorable weather conditions during the winter and spring seasons could have a significant impact on our results.

Our results of operations are subject to fluctuations due to the timing of new store openings.

The timing of new store openings may result in significant fluctuations in our quarterly performance. We typically incur most cash pre-opening costs for a new store within the two months immediately preceding, and the month of, the store's opening. In addition, the labor and operating costs for a newly opened store during the first three to six months of operation are materially greater than what can be expected after that time, both in aggregate dollars and as a percentage of revenues. Additionally, a portion of a current fiscal year new store capital expenditures is related to stores that are not expected to open until the following fiscal year. Due to these substantial up-front financial requirements to open new stores, the investment risk related to any single store is much larger than that associated with many other restaurants or entertainment venues.

Slow economic growth or a recession could have a material adverse impact on our landlords or other tenants in shopping centers in which we are located, which in turn could negatively affect our financial results.

If we experience an economic downturn in the future, our landlords may be unable to obtain financing or remain in good standing under their existing financing arrangements, resulting in failures to pay required tenant improvement allowances or satisfy other lease covenants to us. In addition, tenants at shopping centers in which we are located or have executed leases, or to which our stores are near, may fail to open or may cease operations. Decreases in total tenant occupancy in shopping centers in which we are located, or to which our stores are near, may affect traffic at our stores. All these factors could have a material adverse impact on our operations.

Damage to our brand or reputation could adversely affect our business.

Our brand and our reputation are among our most important assets. Our ability to attract and retain customers depends, in part, upon the external perception of our Company, the quality of our food service and facilities and our integrity. Multi-store businesses, such as ours, can be adversely affected by unfavorable publicity resulting from poor food quality, illness or health concerns, or a variety of other operating issues stemming from one or a limited number of stores. The speed at which negative publicity (whether or not accurate) can be disseminated has increased dramatically with the capabilities of electronic communication. Adverse publicity involving any of these factors could make our stores less appealing, reduce our customer traffic and/or impose practical limits on pricing. In the future, our stores may be operated by franchisees. Any such franchisees will be independent third parties that we do not control. Although our franchisees will be contractually obligated to operate the store in accordance with our standards, we would not oversee their daily operations. If one or more of our stores were the subject of unfavorable publicity and we are unable to quickly and effectively respond to such reports, our overall brand could be adversely affected, which could have a material adverse effect on our business, results of operations and financial condition.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely impact our business.

There has been a marked increase in the use of social media and similar platforms which allow individuals access to a broad audience of consumers and other interested persons. Many social media platforms immediately

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publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may harm our interests, performance, or prospects of business, regardless of the information's accuracy.

As a part of our marketing strategy, we rely on search engine marketing, social media and new digital platforms to attract and retain our customers and maintain brand relevance. Our strategy and initiatives may not be successful, resulting in expenses incurred without improvement in traffic or relevance. In addition, a variety of risks are associated with the use of social media, including improper disclosure of proprietary information, negative comments about us, exposure of personally identifiable information, fraud and out-of-date information. The inappropriate use of social media vehicles by our customers or employees could increase our costs, lead to litigation or result in negative publicity that could damage our operating results, brand or reputation.

Our procurement of games and amusement offerings is dependent upon a few suppliers.

Our ability to continue to procure new games, amusement offerings, and other entertainment-related equipment is important to our business strategy. The number of suppliers from which we can purchase games, amusement offerings and other entertainment-related equipment is limited. To the extent that the number of suppliers declines, we could be subject to the risk of distribution delays, pricing pressure, lack of innovation and other associated risks.

In addition, any increase in cost or decrease in availability of new amusement offerings that appeal to customers could adversely impact our revenues as well as the cost to acquire and operate new amusements, either of which could have a material adverse effect on our operating results and could also lead to decreases in revenues as customers negatively react to lack of new game options. We may not be able to anticipate and react to changing amusement offerings cost by adjusting purchasing practices or game prices, and a failure to do so could have a material adverse effect on our operating results.

We have successfully developed several proprietary amusement offerings that are not available to operations outside the Company. Our ability to develop future offerings is dependent on, among other things, obtaining rights to compelling game content and developing new amusement offerings that are accepted by our customers. There is no guarantee that additional licensing rights will be obtained by us or that our customers will accept the future offerings that we develop. The result could be increased expenses without increased revenues putting downward pressure on our results of operations and financial performance.

Our operations are susceptible to changes in the availability and the cost of food and other supplies, in most cases from a limited number of suppliers, which could negatively affect our operating results.

Our profitability depends in part on our ability to anticipate and react to changes in food and other supply costs. Various factors beyond our control, including adverse weather conditions, governmental regulation and monetary policy, product availability, recalls of food products, and seasonality, as well as the effects of the current macroeconomic environment on our suppliers, may affect our commodity costs or cause a disruption in our supply chain. In an effort to mitigate some of this risk, we have multiple short-term supply contracts with a limited number of suppliers. If any of these suppliers do not perform adequately or otherwise fail to distribute products or supplies to our stores, we may be unable to replace the suppliers in a short period of time on acceptable terms, which could increase our costs, cause shortages of food and other items at our stores and cause us to remove certain items from our menu. Changes in the price or availability of commodities for which we do not have short-term supply contracts could have a material adverse effect on our profitability. Expiring contracts with our food suppliers could also result in unfavorable renewal terms and therefore increase costs associated with these suppliers or may necessitate negotiations with other suppliers. Other than short-term supply contracts for certain food items, we currently do not engage in futures

contracts or other financial risk management strategies with respect to potential price fluctuations in the cost of food and other supplies. Also, the unplanned loss of a major distributor could adversely affect our business by disrupting our operations as we seek out and

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negotiate a new distribution contract. If we have to pay higher prices for food or other supplies, our operating costs may increase, and, if we are unable to adjust our purchasing practices or pass such cost increases on to our customers by changing menu or game prices, our operating results could be adversely affected.

Our operations are susceptible to the availability of systems and services provided by third-parties, which subject us to possible risk of shortages and interruptions.

We rely on third-party service providers for certain key elements of our operations including credit card processing, telecommunications and utilities. The unplanned loss of services from a major provider could adversely affect our business as we seek out and negotiate for alternate sources of service. We may be unable to replace service providers in a short period of time on acceptable terms, which could limit our operations and increase our costs. If our cost of services increases, we may be unable to pass such cost increases on to our customers, and our operating results could be adversely affected.

Food safety incidents at our stores or in our industry or supply chain may adversely affect customer perception of our brands or industry and result in declines in sales and profits.

We cannot guarantee that our supply chain and food safety controls and training will be fully effective in preventing all food safety issues at our stores, including any occurrences of foodborne illnesses such as salmonella, E. coli, Norovirus, or hepatitis A. In addition, we rely on third-party vendors, making it difficult to monitor food safety compliance and increasing the risk that foodborne illness would affect multiple locations rather than a single store. Some foodborne illness incidents could be caused by third-party vendors and distributors outside of our control. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise, that could give rise to claims or allegations on a retroactive basis. One or more instances of foodborne illness in any of our stores or markets or related to food products we sell could negatively affect our store sales nationwide if highly publicized on national media outlets or through social media. This risk exists even if it were later determined that the illness was wrongly attributed to us or one of our stores. Other restaurant chains have experienced incidents related to foodborne illnesses that have had a material adverse effect on their operations. The occurrence of a similar incident at one or more of our stores, or negative publicity or public speculation about an incident, could reduce customer visits to our stores and negatively impact demand for our menu or game offerings.

We are subject to risks associated with leasing space subject to long-term, non-cancelable leases.

We typically do not own any real property. Payments under our non-cancelable, operating leases account for a significant portion of our operating expenses and we expect the new stores we open in the future will also be leased. The leases typically provide for a base rent plus additional rent based on a percentage of the revenue generated by the stores on the leased premises once certain thresholds are met. We generally cannot cancel these leases without substantial economic penalty. If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligation under the applicable lease, including, among other things, paying the base rent for the remainder of the lease term. We depend on cash flow from operations to pay our lease obligations. If our business does not generate adequate cash flow from operating activities and sufficient funds are not otherwise available to us from borrowings under our existing credit facility, we may not be able to service our operating lease obligations, grow our business, respond to competitive challenges or fund other liquidity and capital needs, which would have a material adverse effect on us.

In addition, as each of our leases expires, we may choose not to renew, or may not be able to renew, such existing leases if the capital investment required to maintain the stores at the leased locations is not justified by the return required on the investment. If we are not able to renew the leases at rents that allow such stores to remain profitable as

their terms expire, the number of such stores may decrease, resulting in lower revenue from operations, or we may relocate a store, which could subject us to construction and other costs and risks, and in either case, could have a material adverse effect on our business, results of operations and financial condition.

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We may not be able to operate our stores or obtain and maintain licenses and permits necessary for such operation, in compliance with laws, regulations and other requirements, which could adversely affect our business, results of operations or financial condition.

Each store is subject to licensing and regulation by alcoholic beverage control, amusement, health, sanitation, safety, building code and fire agencies in the state, county and/or municipality in which the store is located. Each store is required to obtain a license to sell alcoholic beverages on the premises from a state authority and, in certain locations, county and municipal authorities. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. In some states, the loss of a license for cause with respect to one store may lead to the loss of licenses at all stores in that state and could make it more difficult to obtain additional licenses in that state. Alcoholic beverage control regulations relate to numerous aspects of the daily operations of each store, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling and storage and dispensing of alcoholic beverages. We generally have not encountered any material difficulties or failures in obtaining and maintaining the required licenses, permits and approvals that could impact the continuing operations of an existing store, or delay or prevent the opening of a new store. Although we do not anticipate any material difficulties occurring in the future, the failure to receive or retain a liquor license, or any other required permit or license, in a particular location, or to continue to qualify for, or renew licenses, could have a material adverse effect on operations and our ability to obtain such a license or permit in other locations.

We are subject to amusement licensing and regulation by the states, counties and municipalities in which our stores are located, as a result of operating certain entertainment games and attractions, including skill-based games, that offer redemption prizes. These laws and regulations can vary significantly by state, county, and municipality and, in some jurisdictions, may require us to modify our business operations or alter the mix of redemption games and simulators we offer. Moreover, as more states and local communities implement legalized gambling, the laws and corresponding enabling regulations may also be applicable to our redemption games and regulators may create new licensing requirements, taxes or fees, or restrictions on the various types of redemption games we offer. Furthermore, other states, counties and municipalities may make changes to existing laws to further regulate legalized gaming and illegal gambling. Adoption of these laws, or adverse interpretation of existing laws, could require our existing stores in these jurisdictions to alter the mix of games, modify certain games, limit the number of tickets that may be won by a customer from a redemption game, change the mix of prizes that we may offer at our WIN! area or terminate the use of specific games, any of which could adversely affect our operations. If we fail to comply with such laws and regulations, we may be subject to various sanctions and/or penalties and fines or may be required to cease operations until we achieve compliance, which could have an adverse effect on our business and our financial results.

Our costs of doing business could increase due to changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations.

We are subject to various federal, state and local laws and regulations that govern numerous aspects of our business. Changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations governing minimum wage or living wage requirements; other wage, labor or workplace regulations; taxes; or environmental matters could increase our costs of doing business or impact our operations. In addition, recent healthcare reform legislation could adversely impact our labor costs.

We are subject to the Fair Labor Standards Act (which governs such matters as minimum wages, gratuities and overtime), along with the Americans with Disabilities Act, various family leave mandates and other federal, state and local laws and regulations that govern working conditions. We have a substantial number of hourly employees who are paid wage rates at or based on the applicable federal, state or local minimum wage. Further, we operate in many states and localities where the minimum wage is significantly higher than the federal minimum wage. We expect

continued increases in payroll expenses due to federal, state and local mandated increases in the minimum wage, and we are uncertain of the repercussions, if any, of increased minimum wages

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on other expenses. For example, our suppliers may be more severely impacted by higher minimum wage standards, which could result in increased costs to us. In general, we have been able to partially offset cost increases resulting from changes in minimum wage rates by increasing menu or game prices, improving productivity, or through other adjustments, but there can be no assurance that we will be able to continue to do so in the future, and our business, results of operations and financial condition could be adversely affected. Moreover, although none of our employees have been or are now represented by any unions, labor organizations may seek to represent certain of our employees in the future, and if they are successful, our payroll expenses and other labor costs may be increased in the course of collective bargaining, and/or there may be strikes or other work disruptions that may adversely affect our business.

Uncertainty continues to exist with respect to the future of the Patient Protection and Affordable Care Act as amended by the Health Care and Education Affordability Reconciliation Act of 2010 (PPACA) and such uncertainty makes planning difficult year over year. Any significant changes to the healthcare insurance system, including a dismantling of PPACA in whole or in part and/or implementation of a supplementary and/or replacement healthcare insurance system, could impact our healthcare costs. Additionally, our distributors and suppliers also may be affected by higher health care-related costs, which could result in higher costs for goods and services supplied to us. There are no assurances that a combination of cost management and price increases can accommodate the costs associated with compliance.

In May 2018, federal disclosure requirements went into effect under PPACA requiring new menu nutritional labeling requirements, including the requirement to publish the total number of calories of standard menu items on menus, along with a statement that puts this calorie information in the context of a total daily calorie intake. The PPACA also requires us to provide to consumers, upon request, a written summary of detailed nutritional information for each standard menu item, and to provide a statement on menus about the availability of this information. The PPACA also permits the Food and Drug Administration to require us to make additional nutrient disclosures, such as disclosure of trans-fat content. An unfavorable report on, or reaction to, our menu ingredients, the size of our portions, or the nutritional content of our menu items could negatively influence the demand for our offerings. We cannot make any assurances regarding our ability to effectively respond to changes in consumer health perceptions or our ability to successfully implement the nutrient content disclosure requirements and to adapt our menu offerings to trends and eating habits.

Immigration reform continues to attract significant attention in the public arena and the U.S. Congress. If new immigration legislation is enacted, such laws may contain provisions that could increase our costs in recruiting, training and retaining employees. Also, although our hiring practices comply with the requirements of federal law in reviewing employees' citizenship or authority to work in the United States, increased enforcement efforts with respect to existing immigration laws by governmental authorities may disrupt a portion of our workforce or our operations at one or more of our stores, thereby negatively impacting our business.

We are also subject to federal, state and local environmental laws, regulations and other requirements. More stringent and varied requirements of local and state governmental bodies with respect to zoning, land use and environmental factors could delay or prevent development of new stores in certain locations. Environmental laws and regulations also govern, among other things, discharges of pollutants into the air and water as well as the presence, handling, release and disposal of and exposure to hazardous substances. These laws provide for significant fines and penalties for noncompliance. Third parties may also make personal injury, property damage or other claims against us associated with actual or alleged release of, or exposure to, hazardous substances at our properties. We could also be strictly liable, without regard to fault, for certain environmental conditions at properties we formerly owned or operated as well as at our current properties.

Our sales and results of operations may be adversely affected by climate change and the passage of other environmental legislation and regulations. The costs and other effects of new legal requirements cannot be determined with certainty. For example, new legislation or regulations may result in increased costs directly for our compliance or indirectly to the extent that such requirements increase prices charged to us by vendors

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because of increased compliance costs. At this point, we are unable to determine the impact that climate change and other environmental legislation and regulations could have on our overall business.

Our success depends upon our ability to recruit and retain qualified store management and operating personnel while also controlling our labor costs.

We must continue to attract, retain and motivate qualified management and operating personnel to maintain consistency in our service, hospitality, quality and atmosphere of our stores, in the United States and Canada. Qualified management and operating personnel are typically in high demand. If we are unable to attract and retain a satisfactory number of qualified management and operating personnel, labor shortages could delay the planned openings of new stores or adversely impact our existing stores. Any such delays, material increases in employee turnover rates in existing stores or widespread employee dissatisfaction could have a material adverse effect on our business and results of operations. Competition for qualified employees could require us to pay higher wages, which could result in higher labor costs and could have a material adverse effect on our results of operations.

Our financial performance and the ability to successfully implement our strategic direction could be adversely affected if we fail to retain, or effectively respond, to a loss of key management.

Our future success significantly depends on the continued service and performance of our key management personnel. We have employment agreements with all members of senior management. However, we cannot prevent members of senior management from terminating their employment with us. Losing the services of members of senior management could materially harm our business until a suitable replacement is found, and such replacement may not have equal experience and capabilities. In addition, we have not purchased life insurance on any members of our senior management.

If we are unable to successfully design and execute a business strategy plan, our revenues and profitability may be adversely affected.

Our ability to increase revenues and profitability is dependent on designing and executing effective business strategies. If we are delayed or unsuccessful in executing our strategies or if our strategies do not yield the desired results, our business, financial condition and results of operations may suffer. Our ability to meet our business strategy plan is dependent upon, among other things, our ability to:

increase gross sales and operating profits at our existing stores with game, food and beverage options desired by our customers;

evolve our marketing and branding strategies to appeal to our customers;

innovate and implement technology initiatives to provide a unique digital customer experience;

identify adequate sources of capital to fund and finance strategic initiatives, including new store openings, remodeling existing stores and new game development;

grow and expand operations, including identifying available, suitable and economically viable sites for new stores; and

improve the speed and quality of our service.

We face potential liability with our gift cards under the property laws of some states.

Our gift cards, which may be used to purchase food, beverages, merchandise and game play credits in our stores, may be considered stored value cards. Certain states include gift cards under their abandoned and unclaimed property laws and require companies to remit to the state cash in an amount equal to all or a designated portion of the unredeemed balance on the gift cards based on certain card attributes and the length of

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time that the cards are inactive. To date we have not remitted any amounts relating to unredeemed gift cards to states based upon our assessment of applicable laws.

The analysis of the potential application of the abandoned and unclaimed property laws to our gift cards is complex, involving an analysis of constitutional, statutory provisions and factual issues. In the event that one or more states change their existing abandoned and unclaimed property laws or successfully challenge our position on the application of its abandoned and unclaimed property laws to our gift cards, our liabilities with respect to unredeemed gift cards may be materially higher than the amounts shown in our financial statements. If we are required to materially increase the estimated liability recorded in our financial statements with respect to unredeemed gift cards, our net income could be materially and adversely affected.

Our Power Cards may raise similar concerns to gift cards in terms of the applicability of state abandoned and unclaimed property laws. However, based on our analysis of abandoned and unclaimed property laws, we believe that our Power Cards are not stored value cards and such laws do not apply, although there can be no assurance that states will not take a different position.

Customer complaints or litigation on behalf of our customers or employees may adversely affect our business, results of operations or financial condition.

Our business may be adversely affected by legal or governmental proceedings brought by or on behalf of our customers or employees. In recent years, a number of restaurant companies, including ours, have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state law regarding workplace and employment matters, discrimination and similar matters, and a number of these lawsuits have resulted in the payment of substantial damages by the defendants. We could also face potential liability (which could be material) if we are found to have misclassified certain employees as exempt from the overtime requirements of the federal Fair Labor Standards Act and state labor laws, or if we are found to have failed to provide or continue health insurance or benefits to our employees in violation of the Employee Retirement Income Security Act or the PPACA. We have had from time to time and now have such lawsuits pending against us. In addition, from time to time, customers file complaints or lawsuits against us alleging that we are responsible for some illness or injury they suffered at or after a visit to a store. We are also subject to a variety of other claims in the ordinary course of business, including personal injury, lease and contract claims.

We are also subject to dram shop statutes in certain states in which our stores are located. These statutes generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated individual. Recent litigation against restaurant chains has resulted in significant judgments and settlements under dram shop statutes. Because these cases often seek punitive damages, which may not be covered by insurance, such litigation could have an adverse impact on our business, results of operations or financial condition. Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time and money away from operations and hurt our financial performance. A judgment significantly in excess of our insurance coverage or not covered by insurance could have a material adverse effect on our business, results of operations or financial condition. Also, adverse publicity resulting from these allegations may materially affect our stores and us.

Local conditions, adverse weather conditions, natural disasters and acts of violence or terrorism, could adversely affect our business.

Certain of the regions in which our stores are located have been, and may in the future be, subject to adverse local conditions, events, terrorist attacks, adverse weather conditions, or natural disasters, such as earthquakes, floods and

hurricanes. Depending upon its magnitude, a natural disaster could severely damage our stores, which could adversely affect our business, results of operations or financial condition. Our corporate headquarters, company-owned distribution center, game repair facility and our data center, as well as our backup data facility, are all located in Dallas, Texas. A natural or man-made disaster could significantly impact our ability to provide

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services and systems to our stores and negatively impact store operations throughout our operations. We currently maintain property and business interruption insurance through the aggregate property policy for each of our stores. However, if there is a major disaster, such coverage may not be adequate. In addition, upon the expiration of our current insurance policies, adequate insurance coverage may not be available at reasonable rates, or at all. Any act of violence at or threatened against our stores or the centers in which they are located, including active shooter situations and terrorist activities, may result in restricted access to our stores and/or store closures in the short-term and, in the long term, may cause our customers and employees to avoid visiting our stores. Any such situation could adversely impact cash flows and make it more difficult to fully staff our stores, which could materially adversely affect our business.

We may not be able to adequately protect our intellectual property.

Our intellectual property is essential to our success and competitive position. We use a combination of intellectual property rights, such as trademarks and trade secrets, to protect our brand and certain other proprietary processes and information material to our business. The success of our business strategy depends, in part, on our continued ability to use our intellectual property rights to increase brand awareness and further develop our branded products in both existing and new markets. If we fail to protect our intellectual property rights adequately, we may lose an important advantage in the markets in which we compete. If third parties misappropriate or infringe our intellectual property, the value of our image, brand and the goodwill associated therewith may be diminished, our brand may fail to achieve and maintain market recognition, and our competitive position may be harmed, any of which could have a material adverse effect on our business, including our revenues. Policing unauthorized use of our intellectual property is difficult, and we cannot be certain that the steps we have taken will prevent the violation or misappropriation of such intellectual property rights by others. To protect our intellectual property, we may become involved in litigation, which could result in substantial expenses, divert the attention of management and adversely affect our revenue, financial condition and results of operations.

We cannot be certain that our products and services do not and will not infringe on the intellectual property rights of others. Any such claims, regardless of merit, could be time-consuming and expensive to litigate or settle, divert the attention of management, cause significant delays, materially disrupt the conduct of our business and have a material adverse effect on our financial condition and results of operations. As a consequence of such claims, we could be required to pay a substantial damage award, take a royalty-bearing license, discontinue the use of third-party products used within our operations and/or rebrand our products and services.

Information technology system failures or interruptions may impact our operations.

We rely heavily on various information technology systems, including point-of-sale, kiosk and amusement operations systems in our stores, data centers that process transactions, communication systems and various other software applications used throughout our operations. Some of these systems have been internally developed or we may rely on third party providers and platforms for some of these information technology systems and support. Although we have operational safeguards in place, those technology systems and solutions could become vulnerable to damage, disability or failures due to theft, fire, power outages, telecommunications failure or other catastrophic events. Any failure of these systems could significantly impact our operations. Our reliance on third party systems also present the risk faced by the third party's business, including the operational, security and credit risks of those parties. If those systems were to fail or otherwise be unavailable, and we were unable to timely recover, we could experience an interruption in our operations.

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The unauthorized access to, theft or destruction of, customer or employee personal, financial or other data or of our proprietary or confidential information that is stored in our information systems or by third parties on our behalf could impact our reputation and brand and expose us to potential liability and loss of revenues.

The protection of customer, employee and company data is critical to us. We are subject to laws relating to information security, privacy, cashless payments, consumer credit and fraud. Additionally, an increasing number of government and industry groups have established laws and standards for the protection of personal and health information. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements. Compliance with these requirements may result in cost increases due to necessary system changes and the development of new administrative processes, and if we fail to comply with laws and regulations regarding privacy and security, we could be exposed to risks of fines, investigations, litigation and disruption of our operations.

In the ordinary course of our business, we receive and maintain certain personal information from our customers, employees and vendors, and we process customer payments using payment information. Customers and employees have a high expectation that we will adequately protect their personal information. Third parties may have the technology or know-how to breach the security of this customer information, and our security measures and those of our technology vendors may not effectively prohibit others from obtaining improper access to this information. A number of restaurant operators and retailers have experienced security breaches in which credit and debit card information may have been stolen. Although we employ security technologies and practices and have taken other steps to try to prevent a breach, we may nevertheless not have the resources or technical sophistication to prevent rapidly evolving types of cyberattacks. In fiscal 2007, there was an external breach of our credit card processing systems, which led to fraudulent credit card activity and resulted in the payment of fines and reimbursements for the fraudulent credit card activity. As part of a settlement with the Federal Trade Commission, we have implemented a series of corrective measures in order to ensure that our computer systems are secure and that our customers' personal information is protected. If in the future, we experience another security breach, we could become subject to claims, lawsuits or other proceedings for purportedly fraudulent transactions arising out of the theft of credit or debit card information, compromised security and information systems, failure of our employees to comply with applicable laws, the unauthorized acquisition or use of such information by third parties, or other similar claims. In addition, such breach could put us in violation of our settlement agreement with the Federal Trade Commission. Any such incidents or proceedings could disrupt the operation of our stores, adversely affect our reputation, consumer confidence, and our results of operations, or result in the imposition of penalties or cause us to incur significant unplanned losses and expenditures, including those necessary to remediate any damage to persons whose personal information may have been compromised. Although we have established a cybersecurity policy, which includes procedures designed to increase transparency and address our customers' concerns regarding data breaches (whether actual or perceived), the policy may not be effective in addressing those concerns, which may in turn adversely affect our reputation and customer confidence. We maintain a separate insurance policy covering cybersecurity risks and such insurance coverage may, subject to policy terms and conditions, cover certain aspects of cyber risks, but this policy is subject to a retention amount and may not be applicable to a particular incident or otherwise may be insufficient to cover all our losses beyond any retention. Further, in light of recent court rulings, there is uncertainty as to whether traditional commercial general liability policies will be construed to cover the expenses related to cyberattacks and breaches if credit and debit card information is stolen.

We are required to maintain the highest level of Payment Card Industry (PCI) Data Security Standard compliance at our corporate office and stores. As part of an overall security program and to meet PCI standards, we undergo regular external vulnerability scans and we are reviewed by a third-party assessor. As PCI standards change, we may be required to implement additional security measures. If we do not maintain the required level of PCI compliance, we could be subject to costly fines or additional fees from the card brands that we accept or lose our ability to accept

those payment cards.

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The market price of our common stock is subject to volatility.

The market price of our common stock may be significantly affected by a number of factors, including, but not limited to, actual or anticipated variations in our operating results or those of our competitors as compared to analyst expectations, changes in financial estimates by research analysts with respect to us or others in the restaurant and other entertainment industries, and announcement of significant transactions (including mergers or acquisitions, divestitures, joint ventures or other strategic initiatives) by us or others in the restaurant and other entertainment industries. In addition, the equity markets have experienced price and volume fluctuations that affect the stock price of companies in ways that have been unrelated to an individual company's operating performance. The price for our common stock may continue to be volatile, based on factors specific to our company and industry, as well as factors related to the equity markets overall.

Failure of our internal control over financial reporting could harm our business and financial results.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with generally accepted accounting principles in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting, including such a failure by third party service providers on whose controls we rely, could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. A significant financial reporting failure or material weakness in internal control over financial reporting could result in substantial cost to remediate and could cause a loss of investor confidence and decline in the market price of our stock.

Provisions in our certificate of incorporation and bylaws may discourage, delay or prevent a change of control of our company or changes in our management and, therefore, may depress the trading price of our stock.

Our certificate of incorporation and bylaws include certain provisions that could have the effect of discouraging, delaying or preventing a change of control of our Company or changes in our management, including, among other things:

restrictions on the ability of our stockholders to fill a vacancy on the Board of Directors;

our ability to issue preferred stock with terms that the Board of Directors may determine, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;

the inability of our stockholders to call a special meeting of stockholders;

specify that special meetings of our stockholders can be called only upon the request of a majority of our Board of Directors or our Chief Executive Officer;

the absence of cumulative voting in the election of directors, which may limit the ability of minority stockholders to elect directors; and

advance notice requirements for stockholder proposals and nominations, which may discourage or deter a potential acquirer from soliciting proxies to elect a particular slate of directors or otherwise attempting to obtain control of us.

These provisions in our certificate of incorporation and our bylaws may discourage, delay or prevent a transaction involving a change of control of our Company that is in the best interest of our minority stockholders. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging future takeover attempts.

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Changes in tax laws and resulting regulations could result in changes to our tax provisions and subject us to additional tax liabilities that could materially adversely affect our financial performance.

We are subject to income, sales, use and other taxes in the U.S. and foreign jurisdictions. Changes in applicable U.S. or foreign tax laws and regulations, such as the December 2017 enactment of Federal legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Act), or their interpretation and application, including the possibility of retroactive effect and changes to state tax laws that may occur in response to the Tax Act, could affect our tax expense and profitability. In addition, the final determination of any tax audits or related litigation could be materially different from our historical tax provisions and accruals. Changes in our tax expense or an increase in our tax liabilities, whether due to changes in applicable laws and regulation, the interpretation or application thereof, or a final determination of tax audits or litigation, could materially adversely affect our financial performance.

We may acquire a business in the future that we fail to effectively integrate or operate.

Our long-term business strategy may include growth through the acquisition of other businesses. We may not be able to identify attractive acquisition opportunities or successfully acquire identified targets on terms favorable to us. Competition for acquisition opportunities may be substantial and may cause us to refrain from making acquisitions. In addition, we may not be successful in integrating future acquisitions into our existing operations, which may result in unforeseen operational difficulties, diminished financial performance or our inability to report financial results and may require a disproportionate amount of our management's attention. If we fail to manage future acquisitions effectively, our results of operations could be adversely affected.

Acquisitions that we complete could present several additional risks, including but not limited to:

incorrect assumptions regarding the future results of acquired operations or assets or expected cost reductions or other synergies expected to be realized from acquiring operations or assets;

failure to integrate the operations or management of any acquired operations or assets successfully and timely;

potential loss of key employees and customers of the acquired companies;

potential lack of experience operating in a geographic market or product line of the acquired business;

an increase in our expenses, particularly overhead expenses, and working capital requirements;

the possible inability to achieve the intended objectives of the business combination; and

the diversion of management's attention from existing operations or other priorities.

ITEM 1B. Unresolved Staff Comments

Not applicable.

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As of February 3, 2019, we lease the building or site of all our 121 operating stores. The table below shows the locations of our operating stores as of February 3, 2019:

| Location | Total |
|-----------------|--------------|
| Alabama | 1 |
| Alaska | 1 |
| Arizona | 4 |
| Arkansas | 2 |
| California | 14 |
| Colorado | 2 |
| Connecticut | 2 |
| Florida | 6 |
| Georgia | 4 |
| Hawaii | 1 |
| Idaho | 1 |
| Illinois | 5 |
| Indiana | 1 |
| Kansas | 2 |
| Kentucky | 1 |
| Louisiana | 1 |
| Maryland | 4 |
| Massachusetts | 2 |
| Michigan | 3 |
| Minnesota | 2 |
| Missouri | 1 |
| Nebraska | 1 |
| Nevada | 1 |
| New Jersey | 2 |
| New Mexico | 1 |
| New York | 11 |
| North Carolina | 3 |
| Ohio | 5 |
| Oklahoma | 2 |
| Oregon | 1 |
| Pennsylvania | 5 |
| Rhode Island | 1 |
| South Carolina | 3 |
| Tennessee | 2 |
| Texas | 13 |
| Utah | 1 |
| Virginia | 3 |
| Washington | 1 |
| Wisconsin | 2 |
| Puerto Rico | 1 |
| Ontario, Canada | 2 |

Total

121

The contracted lease terms, including renewal options, generally range from 20 to 40 years. Our leases typically provide for a minimum annual rent plus contingent rent to be determined as a percentage of the applicable store's annual gross revenues. In fiscal 2018 we paid contingent rent in 33 of our stores. Generally,

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leases are net leases that require us to pay our pro rata share of taxes, insurance and maintenance costs. All our leases include renewal options that give us the opportunity to extend the lease terms through 2023 or later. During fiscal 2018, we also purchased land for a future site in Wichita, Kansas. Additionally, as of February 3, 2019, we have signed 24 lease agreements for future store openings, including ten stores that are under construction, and these future locations are excluded from the table above. During the first quarter of fiscal 2019 we closed a store in Georgia as a result of our decision not to renew the lease.

In addition to our leased stores, we lease a 47,000 square foot office building and 30,000 square foot warehouse facility in Dallas, Texas for use as our corporate headquarters and distribution center. This lease expires in October 2021, with options to renew until October 2041. We also lease a 43,000 square foot warehouse facility in Dallas, Texas for use as additional warehouse space. This lease will expire in September 2022, with an option to renew until September 2027.

ITEM 3. Legal Proceedings

We are subject to certain legal proceedings and claims that arise in the ordinary course of our business, including intellectual property disputes, miscellaneous premises liability, employment-related claims and dram shop claims. In the opinion of management, based upon consultation with legal counsel, the amount of ultimate liability with respect to, or an adverse outcome in any such legal proceedings or claims will not materially affect our business, the consolidated results of our operations or our financial condition. Refer to Note 10 of Notes to Consolidated Financial Statements for a summary of legal proceedings.

ITEM 4. Mine Safety Disclosures

None.

Table of Contents**PART II****ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information and Dividend Policy**

The Company's common stock trades under the symbol PLAY and is listed on the NASDAQ Global Market (NASDAQ).

The number of shareholders of record of the Company's common stock as of March 26, 2019 was estimated to be 261. During the third quarter of fiscal 2018, our Board of Directors declared our first quarterly dividend of \$0.15 per share of common stock, and a second quarterly dividend (\$0.15 per share of common stock) was declared by our Board of Directors during the fourth quarter of fiscal 2018. Our Board of Directors authorized a quarterly dividend payment during the first quarter of fiscal 2019, which will be distributed on April 10, 2019, to shareholders of record at the close of business on March 26, 2019. The declaration and payment of cash dividends on our common stock is at the discretion of our Board of Directors, and any decision to declare a dividend will be based on several factors, including our operating performance, financial condition, capital expenditure requirements and other factors the Board of Directors considers relevant.

Issuer Purchases of Equity Securities

Information regarding repurchase of our common stock during the fourth quarter ended February 3, 2019:

| Period ⁽¹⁾ | Total Number of Shares Repurchased | Average Price Paid per Share | Total Number of Shares Repurchased as Part of Publicly Announced Plan ⁽²⁾ | Approximate Dollar Value of Shares That May Yet Be Repurchased Under the Plan (in thousands) ⁽²⁾ |
|------------------------------|---|-------------------------------------|---|--|
| November 5, 2018 | | | | |
| December 2, 2018 | 134,411 | \$ 59.10 | 134,411 | \$ 125,243 |
| December 3, 2018 | | | | |
| January 6, 2019 | 780,441 | \$ 46.08 | 780,441 | \$ 89,277 |
| January 7, 2019 | | | | |
| February 3, 2019 | 393,800 | \$ 48.60 | 393,800 | \$ 70,137 |

(1) Monthly information is presented by reference to our fiscal periods during the fourth quarter ended February 3, 2019.

(2) Our Board of Directors has approved a share repurchase program, under which the Company may repurchase shares on the open market, through privately negotiated transactions, and through trading plans designed to comply with Rule 10b5-1 of the Exchange Act. The share repurchase program may be modified, suspended or discontinued at any time. As of February 3, 2019, the Company had a total share repurchase authorization of \$400,000 which expires at the end of fiscal 2020. On April 2, 2019, our Board of Directors approved an

additional \$200,000 in authorization under our existing share repurchase program.

Table of Contents**Performance Graph**

The following performance graph depicts the total returns to shareholders for the period from October 10, 2014 (the date when our common stock first started trading) through February 3, 2019, relative to the performance of the NASDAQ Composite Index, Standard & Poor's (S&P) 600 Small Cap Index and S&P's 600 Consumer Discretionary Index. All indices shown in the graph have been set at a base of 100 as of October 10, 2014 and assume an investment of \$100 on that date and the reinvestment of dividends paid since that date. The stock price performance shown in the graph is not necessarily indicative of future price performance.

| | Period Ended | | | | | |
|--------------------------------|--------------|-----------|-----------|-----------|-----------|-----------|
| | 10/10/2014 | 2/1/2015 | 1/31/2016 | 1/29/2017 | 2/4/2018 | 2/3/2019 |
| PLAY | \$100.00 | \$ 179.63 | \$ 226.69 | \$ 342.50 | \$ 298.13 | \$ 320.88 |
| S&P 600 Small Cap | \$100.00 | \$ 110.16 | \$ 104.99 | \$ 141.75 | \$ 161.70 | \$ 162.27 |
| S&P 600 Consumer Discretionary | \$100.00 | \$ 116.77 | \$ 103.57 | \$ 121.41 | \$ 144.21 | \$ 146.95 |
| NASDAQ Composite | \$100.00 | \$ 108.40 | \$ 107.90 | \$ 132.38 | \$ 169.33 | \$ 169.87 |

ITEM 6. Selected Financial Data

The following selected financial data is qualified in its entirety by the consolidated financial statements (and the related Notes thereto) contained in Item 8 and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7. The statement of operations and cash flows data for each of the fiscal years ended February 3, 2019, February 4, 2018, and January 29, 2017 and the balance sheet data as of February 3, 2019 and February 4, 2018 were derived from our audited consolidated financial statements included elsewhere in this Report. The statement of operations and cash flows data for the fiscal year ended January 31, 2016 and February 1, 2015 and the balance sheet data as of January 29, 2017, January 31, 2016, and February 1, 2015 were derived from our audited consolidated financial statements that are not included elsewhere in this Report.

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The Company's fiscal year consists of 52 or 53 weeks ending on the Sunday after the Saturday closest to January 31. Each quarterly period has 13 weeks, except in a 53-week year when the fourth quarter has 14 weeks. All fiscal years presented herein consist of 52 weeks, except fiscal 2017 (ended February 4, 2018), which consists of 53 weeks.

| | Fiscal Year Ended | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| | February 3, 2019 | February 4, 2018 | January 29, 2017 | January 31, 2016 | February 1, 2015 |
| Statement of Operations Data: | | | | | |
| Total revenues | \$ 1,265,301 | \$ 1,139,791 | \$ 1,005,158 | \$ 866,982 | \$ 746,751 |
| Operating income | 161,000 | 165,772 | 150,516 | 110,036 | 73,861 |
| Net income | 117,221 | 120,949 | 90,795 | 59,619 | 7,636 |
| Balance sheet data (as of end of period): | | | | | |
| Cash and cash equivalents | 21,585 | 18,795 | 20,083 | 25,495 | 70,876 |
| Working capital (deficit) ⁽¹⁾ | (153,297) | (112,918) | (102,193) | (46,567) | 17,140 |
| Property and equipment, net | 805,337 | 726,455 | 606,865 | 523,891 | 436,048 |
| Total assets ⁽²⁾ | 1,273,187 | 1,197,030 | 1,052,733 | 1,003,701 | 944,794 |
| Total debt, net ⁽²⁾ | 393,469 | 366,249 | 264,128 | 337,416 | 423,496 |
| Stockholders' equity | 387,837 | 421,646 | 439,452 | 346,338 | 258,697 |
| Other data: | | | | | |
| Capital expenditures | \$ 216,286 | \$ 219,901 | \$ 180,577 | \$ 162,892 | \$ 129,688 |
| Stores open at end of period ⁽³⁾ | 121 | 106 | 92 | 81 | 73 |
| Stores closed during period | | | | 2 | 1 |
| Cash dividends declared per share | \$ 0.30 | | | | |
| Net income per share of common stock: | | | | | |
| Basic | \$ 3.00 | \$ 2.93 | \$ 2.16 | \$ 1.46 | \$ 0.22 |
| Diluted | \$ 2.93 | \$ 2.84 | \$ 2.10 | \$ 1.39 | \$ 0.21 |
| Weighted average number of shares outstanding: | | | | | |
| Basic | 39,047,106 | 41,276,314 | 41,951,770 | 40,968,455 | 35,314,884 |
| Diluted | 39,975,122 | 42,583,009 | 43,288,592 | 42,783,905 | 37,126,048 |

(1) Defined as total current assets minus total current liabilities.

(2) Fiscal 2016 and prior fiscal year balances have been revised to reflect the impact of adopting Accounting Standards Update No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*.

(3) Included in our counts for all periods presented is our store in Duluth (Atlanta), Georgia which permanently closed on March 3, 2019.

ITEM 7. 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 our audited consolidated financial statements and related notes included herein. Unless otherwise specified, the meanings of all defined terms in Management's Discussion and Analysis of Financial Condition and Results of Operations are consistent with the meanings of such terms as defined in the Notes to 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 and Section 21E of the Exchange Act. These forward-looking statements can be identified by use of forward-looking terminology, including the terms believes, estimates, anticipates, expects, intends, may, will or should or, in each case, their negative or other variations or comparative terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this 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.

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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 a guarantee 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 annual report as a result of various factors, including those set forth in Item 1A Risk Factors . 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 Report, those results or developments may not be indicative of results or developments in subsequent periods.

General

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

Our stores average 41,000 square feet, range in size between 16,000 and 66,000 square feet and are open seven days a week, with hours of operation typically from 11:30 a.m. to midnight on Sunday through Thursday and 11:30 a.m. to 2:00 a.m. on Friday and Saturday.

Our Growth Strategies and Outlook

Our growth is based primarily on the following strategies:

Build great new stores;

Drive our comparable stores sales; and

Expand the Dave & Buster's brand internationally.

For further information about our growth strategies and outlook, see Item 1 Business Our Growth Strategies .

Key Measures of Our Performance

We monitor and analyze several 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 that have been open for at least 18 months as of the beginning of each of the fiscal years. It is a key performance indicator used within the industry and is indicative of acceptance of our initiatives as well as local economic and consumer trends. Our comparable stores consisted of 86, 76, and 66 stores as of the end of fiscal 2018,

2017 and 2016, respectively.

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. During fiscal 2018, we opened fifteen new stores, eight of which were in new markets.

Table of Contents**Non-GAAP Financial Measures**

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

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

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

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

We believe that Store Operating Income Before Depreciation and Amortization is another useful measure in evaluating our operating performance because it removes the impact of general and administrative expenses, which are not incurred at the store level, and the costs of opening new stores, which are non-recurring at the store level, and thereby enables the comparability of the operating performance of our stores for the periods presented. We also believe that Store Operating Income Before Depreciation and Amortization is a useful measure in evaluating our operating performance within the entertainment and dining industry because it permits the evaluation of store-level productivity, efficiency and performance, and we use Store Operating Income Before Depreciation and Amortization as a means of evaluating store financial performance compared with our competitors. However, because this measure

excludes significant items such as general and administrative expenses and pre-opening costs, as well as our interest expense, net and depreciation and amortization expense, which are important in evaluating our consolidated financial performance from period to period, the value of this measure is limited as a measure of our consolidated financial performance.

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Presentation of Operating Results

The Company's fiscal year consists of 52 or 53 weeks ending 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 2017, which ended on February 4, 2018, contained 53 weeks. Fiscal 2018 and 2016, which ended on February 3, 2019 and January 29, 2017, respectively, each contained 52 weeks. All dollar amounts are presented in thousands, unless otherwise noted, except share and per share amounts.

Overview

Total revenues increased 11% to \$1,265,301 in fiscal 2018 compared to \$1,139,791 in fiscal 2017. Our revenue growth was primarily influenced by the number of new store openings partially offset by one less week in fiscal 2018.

Comparable store sales decreased 1.6% in fiscal 2018 compared to the comparable 52-week period of fiscal 2017, driven by lower customer volumes.

Operating income decreased to \$161,000 in fiscal 2018 compared to Operating income of \$165,772 in fiscal 2017. Fiscal 2018 operating margin was 12.7% compared to 14.5% in fiscal 2017. The decrease in operating margin in fiscal 2018 was primarily driven by the increased margin pressure on occupancy costs associated with our recent store openings and higher operating payroll and benefits as a percentage of sales, partially offset by favorable leverage of general and administrative costs.

Earnings per share (EPS) for fiscal 2018 increased to \$2.93 per diluted share, compared to EPS of \$2.84 per diluted share in fiscal 2017.

Cash flows from operations were \$337,616 in fiscal 2018 compared to \$264,672 in fiscal 2017. The increase was primarily due to increased cash flows from additional non-comparable store sales as well as an increase in our net working capital deficit.

Capital expenditures were \$216,286 in fiscal 2018 compared to \$219,901 in fiscal 2017.

Liquidity and Cash Flows

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

Store-Level Variability, Quarterly Fluctuations, Seasonality and Inflation

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

Our new stores typically open with sales volumes that exceed 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 year one, and to perform in line with the rest of our comparable store base thereafter. Due to the substantial revenues associated with each new store, the number and timing of new store openings will result in significant fluctuations in quarterly results.

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

Our operating results fluctuate significantly due to seasonal factors. Typically, we have higher revenues associated with the spring and year-end holidays which will continue to be susceptible to the impact of severe or

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unseasonably mild weather on customer traffic and sales during that period. Our third quarter, which encompasses the back-to-school fall season, has historically had lower revenues as compared to other quarters.

We expect that economic and environmental conditions and changes in regulatory legislation will continue to exert pressure on both supplier pricing and consumer spending related to entertainment and dining alternatives. Although there is no assurance that our cost of products will remain stable or that federal, state or local minimum wage rates will not increase beyond amounts currently legislated, the effects of any supplier price increases or wage rate increases are expected to be partially offset by selected menu or game price increases where competitively appropriate.

Fiscal 2018 Compared to Fiscal 2017

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

| | Fiscal Year Ended February 3, 2019 | | Fiscal Year Ended February 4, 2018 | |
|---|---|--------------|---|--------------|
| Food and beverage revenues | \$ 536,469 | 42.4% | \$ 494,816 | 43.4% |
| Amusement and other revenues | 728,832 | 57.6 | 644,975 | 56.6 |
| Total revenues | 1,265,301 | 100.0 | 1,139,791 | 100.0 |
| Cost of food and beverage (as a percentage of food and beverage revenues) | 139,199 | 25.9 | 127,600 | 25.8 |
| Cost of amusement and other (as a percentage of amusement and other revenues) | 81,064 | 11.1 | 69,072 | 10.7 |
| Total cost of products | 220,263 | 17.4 | 196,672 | 17.3 |
| Operating payroll and benefits | 296,924 | 23.5 | 256,724 | 22.5 |
| Other store operating expenses | 384,155 | 30.4 | 334,546 | 29.4 |
| General and administrative expenses | 61,521 | 4.9 | 59,565 | 5.2 |
| Depreciation and amortization expense | 118,275 | 9.3 | 102,766 | 9.0 |
| Pre-opening costs | 23,163 | 1.8 | 23,746 | 2.1 |
| Total operating costs | 1,104,301 | 87.3 | 974,019 | 85.5 |
| Operating income | 161,000 | 12.7 | 165,772 | 14.5 |
| Interest expense, net | 13,113 | 1.0 | 8,665 | 0.7 |
| Loss on debt retirement | | | 718 | 0.1 |
| Income before provision for income taxes | 147,887 | 11.7 | 156,389 | 13.7 |
| Provision for income taxes | 30,666 | 2.4 | 35,440 | 3.1 |
| Net income | \$ 117,221 | 9.3% | \$ 120,949 | 10.6% |
| Change in comparable store sales ⁽¹⁾ | | (1.6)% | | (0.9)% |
| Company-owned stores open at end of period ⁽²⁾ | | 121 | | 106 |

| | | |
|---|----|----|
| Comparable stores open at end of period | 86 | 76 |
|---|----|----|

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

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- (2) Our Duluth (Atlanta), Georgia store which closed after the end of fiscal 2018, on March 3, 2019, is included in our store counts for all periods presented. The number of new store openings during the last two fiscal years were as follows:

| | Fiscal Year Ended February 3, 2019 | Fiscal Year Ended February 4, 2018 |
|----------------|---|---|
| First Quarter | 6 | 4 |
| Second Quarter | 5 | 4 |
| Third Quarter | 1 | 1 |
| Fourth Quarter | 3 | 5 |
| | 15 | 14 |

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

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

| | Fiscal Year Ended February 3, 2019 | | Fiscal Year Ended February 4, 2018 | |
|---------------------------------------|---|-------|---|-------|
| Net income | \$ 117,221 | 9.3% | \$ 120,949 | 10.6% |
| Interest expense, net | 13,113 | | 8,665 | |
| Loss on debt retirement | | | 718 | |
| Provision for income tax | 30,666 | | 35,440 | |
| Depreciation and amortization expense | 118,275 | | 102,766 | |
| EBITDA | 279,275 | 22.1% | 268,538 | 23.6% |
| Loss on asset disposal | 1,121 | | 1,863 | |
| Share-based compensation | 7,422 | | 8,916 | |
| Pre-opening costs | 23,163 | | 23,746 | |
| Other costs ⁽¹⁾ | 136 | | (333) | |
| Adjusted EBITDA | \$ 311,117 | 24.6% | \$ 302,730 | 26.6% |

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

Store Operating Income Before Depreciation and Amortization

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

| | Fiscal Year Ended February 3, 2019 | | Fiscal Year Ended February 4, 2018 | |
|--|---|--------------|---|--------------|
| Operating income | \$ 161,000 | 12.7% | \$ 165,772 | 14.5% |
| General and administrative expenses | 61,521 | | 59,565 | |
| Depreciation and amortization expense | 118,275 | | 102,766 | |
| Pre-opening costs | 23,163 | | 23,746 | |
| Store Operating Income Before Depreciation and Amortization | \$ 363,959 | 28.8% | \$ 351,849 | 30.9% |

Table of Contents**Capital Additions**

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

| | Fiscal Year Ended February 3, 2019 | Fiscal Year Ended February 4, 2018 |
|-------------------------------------|---|---|
| New store and operating initiatives | \$ 162,763 | \$ 185,449 |
| Games | 27,381 | 18,712 |
| Maintenance capital | 20,821 | 19,160 |
| Total capital additions | \$ 210,965 | \$ 223,321 |
| Payments from landlords | \$ 52,099 | \$ 40,334 |

Results of Operations**Revenues**

Total revenues increased \$125,510 or 11.0%, to \$1,265,301 in fiscal 2018 compared to total revenues of \$1,139,791 in fiscal 2017. For the year ended February 3, 2019, we derived 28.9% of our total revenue from food sales, 13.5% from beverage sales, 56.8% from amusement sales and 0.8% from other sources. For the year ended February 4, 2018 we derived 29.5% of our total revenue from food sales, 13.9% from beverage sales, 55.8% from amusement sales and 0.8% from other sources.

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

| | |
|---|-------------------|
| Comparable stores | \$ (15,250) |
| Comparable stores - impact of one less week | (17,551) |
| Non-comparable stores | 163,250 |
| Other | (4,939) |
| Total | \$ 125,510 |

The following discussion on comparable store sales has been prepared by comparing fiscal 2018 revenues to fiscal 2017 revenues shifted to a 52-week basis (beginning February 6, 2017 and ending February 4, 2018). We have estimated the impact of the first week of fiscal 2017 to be \$19,457.

Comparable store revenue decreased \$15,250 or 1.6%, in fiscal 2018 compared to the comparable fifty two weeks of fiscal 2017. Comparable store revenue compared to the prior fiscal year was, in part, negatively impacted by increased competitive pressure and sales transfers to new stores that we opened in markets where we operate. Comparable walk-in revenues, which accounted for 89.7% of comparable store revenue for fiscal 2018, decreased \$12,017, or

1.4% compared to the similar period in fiscal 2017. Comparable store special events revenues, which accounted for 10.3% of consolidated comparable store revenue for fiscal 2018, decreased \$3,233, or 3.2% compared to the comparable period in fiscal 2017.

Food sales at comparable stores decreased by \$9,823, or 3.5%, to \$274,262 for fiscal 2018 from \$284,085 in the comparable period in fiscal 2017. Beverage sales at comparable stores decreased by \$4,858, or 3.6%, to \$128,422 for fiscal 2018 from \$133,280 in the 2017 comparison period. The decrease in food and beverage unit sales at comparable stores was partially offset by an overall increase in menu prices. Comparable store amusement and other revenues in fiscal 2018 decreased by \$569, or 0.1%, to \$551,405 from \$551,974 in the comparable fifty two weeks of fiscal 2017.

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Non-comparable store revenue increased by \$163,250 for fiscal 2018 compared to fiscal 2017. The increase in non-comparable store revenue was primarily driven by 815 additional operating store weeks contributed by our thirty-five non-comparable stores. The additional weeks exclude seven operating store weeks in fiscal 2017, due to the shift described above.

Cost of products

The total cost of products was \$220,263 for fiscal 2018 and \$196,672 for fiscal 2017. The total cost of products as a percentage of total revenues was 17.4% and 17.3% for fiscal 2018 and fiscal 2017, respectively. For the year ended February 3, 2019, the cost of food products was 26.8% of food revenue, the cost of beverage products was 24.2% of beverage revenue, and the amusement and other cost of products was 11.1% of amusement and other revenues. For the year ended February 4, 2018, the cost of food products was 26.6% of food revenue, the cost of beverage products was 24.1% of beverage revenue, and the amusement and other cost of products was 10.7% of amusement and other revenues.

Cost of food and beverage products increased to \$139,199 in fiscal 2018 compared to \$127,600 for fiscal 2017 due primarily to the increased sales volume at our non-comparable stores. Cost of food and beverage products, as a percentage of food and beverage revenues, increased 10 basis points to 25.9% for fiscal 2018 from 25.8% for fiscal 2017. Higher meat costs resulting from our upgraded burger product, higher commodity costs in poultry coupled with additional weeks featuring our All You Can Eat wings promotion compared to fiscal 2017 as well as the impact of our larger non-comparable store group, were partially offset by increases in food and beverage prices.

Cost of amusement and other increased to \$81,064 in fiscal 2018 compared to \$69,072 in fiscal 2017. The costs of amusement and other, as a percentage of amusement and other revenues, increased 40 basis points to 11.1% for fiscal 2018 from 10.7% for fiscal 2017. The deterioration of amusement and other cost margins was driven primarily by higher provisions for use tax on redemption items in fiscal 2018 partially offset by the favorable margin impact of the year-over-year increase in game play of non-redemption amusement offerings.

Operating payroll and benefits

Total operating payroll and benefits increased by \$40,200, or 15.7%, to \$296,924 in fiscal 2018 compared to \$256,724 in fiscal 2017. This increase was primarily due to labor associated with the additional operating store weeks of our non-comparable stores. The total cost of operating payroll and benefits, as a percentage of total revenues, increased 100 basis points to 23.5% in fiscal 2018 compared to 22.5% for fiscal 2017. This increase was due to an average hourly wage rate increase of approximately 4.5%, incremental amusements labor related to our new proprietary virtual reality platform, higher store-level incentive compensation and payroll related benefits which increased approximately 30 basis points, and unfavorable leverage on decreased comparable store sales.

Other store operating expenses

Other store operating expenses increased by \$49,609, or 14.8%, to \$384,155 in fiscal 2018 compared to \$334,546 in fiscal 2017, primarily due to new store openings. Other store operating expenses as a percentage of total revenues increased 100 basis points to 30.4% in fiscal 2018 compared to 29.4% in fiscal 2017. This increase was due primarily to unfavorable leverage of our occupancy costs on decreased comparable store sales and increased margin pressure on occupancy costs associated with our recent store openings.

General and administrative expenses

General and administrative expenses increased by \$1,956, or 3.3%, to \$61,521 in fiscal 2018 compared to \$59,565 in fiscal 2017. Increases in labor and professional services costs were partially offset by the absence of a

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prior year \$2,550 charge for litigation settlement costs and lower incremental compensation costs related to our share-based awards. General and administrative expenses, as a percentage of total revenues, decreased 30 basis points to 4.9% in fiscal 2018 compared to 5.2% in fiscal 2017, for the same reasons above offset by favorable leverage on revenue increases.

Depreciation and amortization expense

Depreciation and amortization expense increased by \$15,509, or 15.1%, to \$118,275 in fiscal 2018 compared to \$102,766 in fiscal 2017. Increased depreciation due to our 2017 and 2018 capital expenditures for new stores, operating initiatives, including remodels, games and maintenance capital, was partially offset by other assets reaching the end of their depreciable lives.

Pre-opening costs

Pre-opening costs decreased by \$583 to \$23,163 in fiscal 2018 compared to \$23,746 in fiscal 2017 due to the number and timing of new store openings and stores in development.

Interest expense, net

Interest expense, net increased by \$4,448 to \$13,113 in fiscal 2018 compared to \$8,665 in fiscal 2017 due to both an increase in outstanding debt and an increase in variable interest rates.

Loss on debt refinancing

In connection with the August 17, 2017, debt refinancing (see Note 5 of Notes to Consolidated Financial Statements for further discussion), the Company recorded a charge of \$718 during the third quarter of fiscal 2017.

Provision for income taxes

The effective income tax rate decreased to 20.7% in fiscal 2018 compared to 22.7% in fiscal 2017. This decrease in the effective tax rate was favorably impacted by the reduction in the statutory rate from 33.7% to 21.0%, offset by the absence of the revaluation of deferrals of 5.1%, as a result of the Tax Act enacted on December 22, 2017. The impact from the Tax Act was offset by an unfavorable 4.0% impact from lower excess tax benefit associated with share-based compensation and an unfavorable 1.5% impact from state taxes. Other differences from the statutory rate are due to the FICA tip credits and the impact of certain income and expense items which are not recognized for income tax purposes. Refer to Note 6 of Notes to Consolidated Financial Statements, for further information on our income tax provision.

Table of Contents**Fiscal 2017 Compared to Fiscal 2016**

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

| | Fiscal Year Ended February 4, 2018 | | Fiscal Year Ended January 29, 2017 | |
|---|---|--------------|---|--------------|
| Food and beverage revenues | \$ 494,816 | 43.4% | \$ 452,140 | 45.0% |
| Amusement and other revenues | 644,975 | 56.6 | 553,018 | 55.0 |
| Total revenues | 1,139,791 | 100.0 | 1,005,158 | 100.0 |
| Cost of food and beverage (as a percentage of food and beverage revenues) | 127,600 | 25.8 | 114,946 | 25.4 |
| Cost of amusement and other (as a percentage of amusement and other revenues) | 69,072 | 10.7 | 65,354 | 11.8 |
| Total cost of products | 196,672 | 17.3 | 180,300 | 17.9 |
| Operating payroll and benefits | 256,724 | 22.5 | 228,827 | 22.8 |
| Other store operating expenses | 334,546 | 29.4 | 287,322 | 28.6 |
| General and administrative expenses | 59,565 | 5.2 | 54,474 | 5.4 |
| Depreciation and amortization expense | 102,766 | 9.0 | 88,305 | 8.8 |
| Pre-opening costs | 23,746 | 2.1 | 15,414 | 1.5 |
| Total operating costs | 974,019 | 85.5 | 854,642 | 85.0 |
| Operating income | 165,772 | 14.5 | 150,516 | 15.0 |
| Interest expense, net | 8,665 | 0.7 | 6,985 | 0.7 |
| Loss on debt retirement | 718 | 0.1 | | |
| Income before provision for income taxes | 156,389 | 13.7 | 143,531 | 14.3 |
| Provision for income taxes | 35,440 | 3.1 | 52,736 | 5.3 |
| Net income | \$ 120,949 | 10.6% | \$ 90,795 | 9.0% |
| Change in comparable store sales ⁽¹⁾ | | (0.9)% | | 3.3% |
| Company-owned stores open at end of period ⁽²⁾ | | 106 | | 92 |
| Comparable stores open at end of period | | 76 | | 66 |

(1) The fiscal year 2017 comparable store sales have been adjusted to remove the impact of the 53rd week prior to calculating the year-over-year change percentage.

(2) The number of new store openings during the last two fiscal years were as follows:

| | Fiscal Year Ended February 4, 2018 | Fiscal Year Ended January 29, 2017 |
|----------------|---|---|
| First Quarter | 4 | 3 |
| Second Quarter | 4 | 2 |
| Third Quarter | 1 | 2 |
| Fourth Quarter | 5 | 4 |
| | 14 | 11 |

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

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

| | Fiscal Year Ended | | Fiscal Year Ended | |
|---------------------------------------|--------------------------|--------------|--------------------------|--------------|
| | February 4, 2018 | | January 29, 2017 | |
| Net income | \$ 120,949 | 10.6% | \$ 90,795 | 9.0% |
| Interest expense, net | 8,665 | | 6,985 | |
| Loss on debt retirement | 718 | | | |
| Provision for income tax | 35,440 | | 52,736 | |
| Depreciation and amortization expense | 102,766 | | 88,305 | |
| EBITDA | 268,538 | 23.6% | 238,821 | 23.8% |
| Loss on asset disposal | 1,863 | | 1,533 | |
| Share-based compensation | 8,916 | | 5,828 | |
| Pre-opening costs | 23,746 | | 15,414 | |
| Other costs ⁽¹⁾ | (333) | | (73) | |
| Adjusted EBITDA | \$ 302,730 | 26.6% | \$ 261,523 | 26.0% |

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

Store Operating Income Before Depreciation and Amortization

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

| | Fiscal Year Ended | | Fiscal Year Ended | |
|--|--------------------------|--------------|--------------------------|--------------|
| | February 4, 2018 | | January 29, 2017 | |
| Operating income | \$ 165,772 | 14.5% | \$ 150,516 | 15.0% |
| General and administrative expenses | 59,565 | | 54,474 | |
| Depreciation and amortization expense | 102,766 | | 88,305 | |
| Pre-opening costs | 23,746 | | 15,414 | |
| Store Operating Income Before Depreciation and Amortization | \$ 351,849 | 30.9% | \$ 308,709 | 30.7% |

Capital Additions

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

| | Fiscal Year Ended February 4, 2018 | Fiscal Year Ended January 29, 2017 |
|---|---|---|
| New store | \$ 168,381 | \$ 135,476 |
| Operating initiatives, including remodels | 17,068 | 20,919 |
| Games | 18,712 | 19,809 |
| Maintenance Capital | 19,160 | 15,983 |
| Total capital additions | \$ 223,321 | \$ 192,187 |
| Payments from landlords | \$ 40,334 | \$ 46,262 |

Table of Contents***Results of Operations******Revenues***

Total revenues increased \$134,633, or 13.4%, to \$1,139,791 in fiscal 2017 compared to total revenues of \$1,005,158 in fiscal 2016. We have estimated the impact of the 53rd week of fiscal 2017 to be \$19,685. For the year ended February 4, 2018, we derived 29.5% of our total revenue from food sales, 13.9% from beverage sales, 55.8% from amusement sales and 0.8% from other sources. For the year ended January 29, 2017, we derived 30.4% of our total revenue from food sales, 14.6% from beverage sales, 54.2% from amusement sales and 0.8% from other sources.

The increased revenues in fiscal 2017 were from the following sources:

| | |
|---|-------------------|
| Comparable stores - excluding impact of 53rd week | \$ (7,962) |
| Comparable stores - 53rd week impact | 14,268 |
| Non-comparable stores | 128,616 |
| Other | (289) |
| Total | \$ 134,633 |

The following discussion on comparable store sales has been prepared by comparing fiscal 2017 revenues on a 52-week basis to fiscal 2016 revenues.

Comparable store revenue decreased \$7,962, or 0.9%, in fiscal 2017 compared to fiscal 2016. Comparable store revenue compared to the prior fiscal year was, in part, negatively impacted by decreases in our food and beverage unit sales throughout the year, increased pressure from competition, cannibalization of sales from our new store openings and weather-related sales interruptions in the third and fourth quarter. Comparable walk-in revenues, which accounted for 89.2% of comparable store revenue for fiscal 2017, decreased \$6,572, or 0.8% compared to fiscal 2016. Comparable store special events revenues, which accounted for 10.8% of consolidated comparable store revenue for fiscal 2017, decreased \$1,390, or 1.4% compared to fiscal 2016.

Food sales at comparable stores decreased by \$11,632, or 4.3%, to \$257,727 for fiscal 2017 from \$269,359 in fiscal 2016. Beverage sales at comparable stores decreased by \$6,654, or 5.1%, to \$122,710 for fiscal 2017 from \$129,364 in fiscal 2016. The decrease in food and beverage sales at comparable stores is attributed to lower customer volumes and was partially offset by an overall increase in menu prices. Comparable store amusement and other revenues in fiscal 2017 increased by \$10,324, or 2.1%, to \$499,638 from \$489,314 in fiscal 2016, due to an increase in the revenue per Power Card sold.

Revenue at our 30 non-comparable stores increased \$128,616 for fiscal 2017 compared to fiscal 2016. The increase in non-comparable store revenue was primarily driven by 718 additional operating store weeks including an additional 30 store weeks due to our 53-week year.

Cost of products

The total cost of products was \$196,672 for fiscal 2017 and \$180,300 for fiscal 2016. The total cost of products as a percentage of total revenues was 17.3% and 17.9% for fiscal 2017 and fiscal 2016, respectively. For the year ended February 4, 2018, the cost of food products was 26.6% of food revenue, the cost of beverage products was 24.1% of

beverage revenue, and the amusement and other cost of products was 10.7% of amusement and other revenues. For the year ended January 29, 2017, the cost of food products was 26.1% of food revenue, the cost of beverage products was 23.9% of beverage revenue, and the amusement and other cost of products was 11.8% of amusement and other revenues.

Cost of food and beverage products increased to \$127,600 in fiscal 2017 compared to \$114,946 for fiscal 2016 due primarily to the increased sales volume at our non-comparable stores. Cost of food and beverage

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products, as a percentage of food and beverage revenues, increased 40 basis points to 25.8% for fiscal 2017 from 25.4% for fiscal 2016. Higher poultry cost and the impact of our larger non-comparable store group were partially offset by savings in seafood and increases in food and beverage menu prices.

Cost of amusement and other increased to \$69,072 in fiscal 2017 compared to \$65,354 in fiscal 2016 as cost reductions at comparable stores were more than offset by costs related to our non-comparable stores. The costs of amusement and other, as a percentage of amusement and other revenues, decreased 110 basis points to 10.7% for fiscal 2017 from 11.8% for fiscal 2016. The decrease in cost of amusement and other as a percentage of revenue was due, in part, to a \$2,726, or 40 basis point, amusement cost reduction in fiscal 2017 due to the favorable settlement of a multi-year use tax audit by the state of Texas. This cost reduction represents the excess use tax on redemption items during the period from July 2011 through January 2017. Additionally, the decrease in cost of amusement and other as a percentage of revenue was positively impacted by a shift in game play from redemption to non-redemption games and price increases implemented earlier in the year.

Operating payroll and benefits

Total operating payroll and benefits increased by \$27,897, or 12.2%, to \$256,724 in fiscal 2017 compared to \$228,827 in fiscal 2016. This increase was primarily due to labor associated with 718 additional operating store weeks of our thirty non-comparable stores as well as the impact of the 53rd week on our comparable stores and was partially offset by an approximate \$1,300 decrease in store-level incentive compensation. The total cost of operating payroll and benefits, as a percentage of total revenues, decreased 30 basis points to 22.5% in fiscal 2017 compared to 22.8% for fiscal 2016. This decrease was due to lower store-level incentive compensation and payroll related benefits which decreased approximately 40 basis points, partially offset by an hourly wage rate increase of approximately 4.5% and normal labor inefficiencies associated with our non-comparable store base.

Other store operating expenses

Other store operating expenses increased by \$47,224, or 16.4%, to \$334,546 in fiscal 2017 compared to \$287,322 in fiscal 2016, primarily due to new store openings and the impact of the 53rd week in fiscal 2017. Other store operating expenses as a percentage of total revenues increased 80 basis points to 29.4% in fiscal 2017 compared to 28.6% in fiscal 2016. This increase was due primarily to increased margin pressure on occupancy costs associated with our recent store openings.

General and administrative expenses

General and administrative expenses increased by \$5,091, or 9.3%, to \$59,565 in fiscal 2017 compared to \$54,474 in fiscal 2016. The increase in general and administrative expenses was primarily driven by a second quarter \$2,550 charge for net litigation settlement costs, increased labor costs at our corporate headquarters and incremental compensation costs related to our share-based awards partially offset by lower incentive compensation expenses. General and administrative expenses, as a percentage of total revenues, decreased 20 basis points to 5.2% in fiscal 2017 compared to 5.4% in fiscal 2016, due to favorable leverage on sales.

Depreciation and amortization expense

Depreciation and amortization expense increased by \$14,461, or 16.4%, to \$102,766 in fiscal 2017 compared to \$88,305 in fiscal 2016. Increased depreciation due to our 2016 and 2017 capital expenditures for new stores, operating initiatives, including remodels, games and maintenance capital, as well as an estimated \$2,000 related to the 53rd week of 2017, partially offset by other assets reaching the end of their depreciable lives.

Pre-opening costs

Pre-opening costs increased by \$8,332 to \$23,746 in fiscal 2017 compared to \$15,414 in fiscal 2016 due to the number and timing of new store openings and stores in development.

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Interest expense, net

Interest expense, net increased by \$1,680 to \$8,665 in fiscal 2017 compared to \$6,985 in fiscal 2016 due primarily to higher variable interest rates and an estimated \$200 related to the 53rd week of 2017.

Loss on debt retirement

In connection with the August 17, 2017, debt refinancing (see Note 5 of Notes to Consolidated Financial Statements for further discussion), the Company recorded a charge of \$718 during the third quarter of fiscal 2017.

Provision for income taxes

The effective income tax rate decreased to 22.7% in fiscal 2017 compared to 36.7% in fiscal 2016. This decrease in the effective tax rate primarily reflects a favorable 7.3% impact from the implementation of new accounting guidance in fiscal 2017 that requires the excess tax benefit from exercised stock options and vested restricted stock to be recorded in the income tax provision instead of additional paid-in-capital, and a favorable 6.4% impact from the Tax Cuts and Jobs Act enacted on December 22, 2017. Other differences from the statutory rate are due to the FICA tip credits, state income taxes and the impact of certain income and expense items which are not recognized for income tax purposes. Refer to Note 6 of Notes to Consolidated Financial Statements, for further information on our income tax provision.

Liquidity and Capital Resources

Overview

We finance our activities through cash flow from operations and availability under our existing credit facility. As of February 3, 2019, we had cash and cash equivalents of \$21,585, a net working capital deficit of \$153,297 and outstanding debt obligations of \$394,250. We also had \$381,953 in borrowing availability under our existing credit facility.

Our Board of Directors approved a share repurchase program, under which the Company may repurchase shares on the open market, through privately negotiated transactions, and through trading plans designed to comply with Rule 10b5-1 of the Exchange Act. The share repurchase program may be modified, suspended or discontinued at any time. As of February 3, 2019, the Company had approximately \$70,137 remaining of a total \$400,000 share repurchase authorization. The existing share repurchase program expires at the end of fiscal 2020. On April 2, 2019, our Board of Directors approved an additional \$200,000 in authorization under our existing share repurchase program. Our Board of Directors may authorize additional share repurchases or other capital allocation initiatives, including additional dividends, to return value to shareholders as allowable under our existing credit facility.

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

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

remodeling facilities and recurring replacement of equipment and improvements.

Long-term liquidity requirements. We generally consider our long-term liquidity requirements to consist of those items that are expected to be incurred beyond the next twelve months and believe these requirements

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consist primarily of funds necessary for new store development and construction, replacement of games and equipment, renovations and other non-recurring capital expenditures that need to be made periodically to our stores, principal and interest payments on our outstanding term loan and scheduled lease obligation payments. We intend to satisfy our long-term liquidity requirements through various sources of capital, including our existing cash on hand, cash provided by operations, and borrowings under the revolving portion of our credit facility.

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

Cash Flows

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

| | Fiscal Year Ended February 3, 2019 | Fiscal Year Ended February 4, 2018 | Fiscal Year Ended January 29, 2017 |
|--|---|---|---|
| Net cash provided by (used in): | | | |
| Operating activities | \$ 337,616 | \$ 264,672 | \$ 231,329 |
| Investing activities | (203,808) | (216,623) | (159,485) |
| Financing activities | (131,018) | (49,337) | (77,256) |

Fiscal 2018 Compared to Fiscal 2017

Net cash provided by operating activities was \$337,616 for fiscal 2018 compared to \$264,672 for fiscal 2017. Increased cash flows from operations were driven primarily by increased cash flows from additional non-comparable store sales as well as an increase in our net working capital deficit at the end of fiscal 2018 compared to the end of fiscal 2017.

Net cash used in investing activities was \$203,808 for fiscal 2018 compared to \$216,623 for fiscal 2017. Capital expenditures decreased \$3,615 to \$216,286 (excluding the decrease in fixed asset accrued liabilities of \$5,321) in fiscal 2018 from \$219,901 in fiscal 2017. During fiscal 2018, the Company spent \$164,734 (\$112,635 net of payments from landlords) for new store construction and operating improvement initiatives, \$28,826 for game refreshment, and \$22,726 for maintenance capital.

Net cash used in financing activities was \$131,018 for fiscal 2018 compared to cash used in financing activities of \$49,337 for fiscal 2017. Fiscal 2018 included repurchases of common stock of approximately \$149,000 and dividend payments of \$11,570, offset by net borrowings of debt of \$27,000. Fiscal 2017 cash used in financing activities included repurchases of common stock of approximately \$152,000, offset by net borrowings of debt of \$102,500.

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 \$231,000 to \$241,000 (\$190,000 to \$200,000 net of payments from landlords) on capital additions during fiscal 2019. The fiscal 2019 additions are expected to include approximately \$184,000 to \$194,000 (\$143,000 to \$153,000 net of payments from landlords) for new store construction and operating improvement initiatives, \$20,000 for game refreshment and \$27,000 in maintenance capital. A portion of the 2019 new store spend is related to stores that will be under construction in 2019 but will not be open until 2020.

Table of Contents***Fiscal 2017 Compared to Fiscal 2016***

Net cash provided by operating activities was \$264,672 for fiscal 2017 compared to \$231,329 for fiscal 2016. Increased cash flows from operations were driven primarily by increased cash flows from additional non-comparable store sales and additional sales related to the 53rd week in fiscal 2017.

Net cash used in investing activities was \$216,623 for fiscal 2017 compared to \$159,485 for fiscal 2016. Capital expenditures increased \$39,324 to \$219,901 (excluding the increase in fixed asset accrued liabilities of \$3,420) in fiscal 2017 from \$180,577 in fiscal 2016. During fiscal 2017, the Company spent \$166,675 (\$126,341 net of payments from landlords) for new store construction, \$19,024 for game refreshment, \$17,361 for maintenance capital and \$16,841 related to a major remodel project on four existing stores, several smaller scale remodel projects and operating improvement initiatives.

Net cash used in financing activities was \$49,337 for fiscal 2017 compared to cash used in financing activities of \$77,256 for fiscal 2016. Fiscal 2017 included net borrowings of debt of \$102,500, offset by repurchases of common stock of approximately \$152,000. Fiscal 2016 primarily included net repayments of debt of \$73,500 and repurchases of common stock of approximately \$28,800.

Contractual Obligations and Commercial Commitments

The following table sets forth the contractual obligations and commercial commitments as of February 3, 2019:

Payment due by period

| | Total | 1 Year or Less | 2-3 Years | 4-5 Years | After 5 Years |
|--------------------------------------|---------------------|-------------------------------|----------------------|----------------------|--------------------------|
| Credit Facility ⁽¹⁾ | \$ 394,250 | \$ 15,000 | \$ 30,000 | \$ 349,250 | \$ |
| Interest requirements ⁽²⁾ | 49,490 | 14,685 | 27,672 | 7,133 | |
| Operating leases ⁽³⁾ | 1,786,828 | 122,501 | 229,550 | 204,974 | 1,229,803 |
| Total | \$ 2,230,568 | \$ 152,186 | \$ 287,222 | \$ 561,357 | \$ 1,229,803 |

(1) The Credit Facility includes a \$300,000 term loan facility and \$500,000 revolving credit facility. As of February 3, 2019, we had borrowings of \$281,250 under the term loan facility and borrowings of \$113,000 under the revolving credit facility.

(2) The cash obligations for interest requirements are based on debt levels in effect on February 3, 2019, adjusted for scheduled principal payments on the term loan facility and using a 3.75% interest rate.

(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.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

Critical accounting policies and estimates

The above discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and

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disclosures of contingent assets and liabilities. Our significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements. Critical accounting policies are those that we believe are most important to portraying our financial condition and results of operations and require the greatest amount of judgment by management. Judgment or uncertainties regarding the application of these policies may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following policies to be the most critical in understanding the judgment that is involved in preparing the consolidated financial statements.

Accounting for amusement operations. Amusement revenue is derived primarily from customer purchases of game play credits on Power Cards which allow our customers to play the video and redemption games in our Midways. We have recognized a liability for the estimated amount of unused game play credits, which we believe our customers will utilize in the future based on credits remaining on Power Cards, historic utilization patterns and revenue per game play credit sold. For fiscal 2018, a hypothetical 10% increase in estimated future customer utilization would have decreased revenues by approximately \$7,000, as a result of additional amounts deferred from sales of game play credits.

Certain midway games allow customers to earn tickets, which may be redeemed for prizes. The cost of these prizes is included in the cost of amusement products and is generally recorded when tickets are utilized by the customer by redeeming the tickets for a prize in our WIN! Area or storing the ticket value on a Power Card for future redemption. We have recorded a liability for the estimated amount of outstanding tickets that will be redeemed in subsequent periods based on tickets outstanding, historic redemption patterns and the estimated redemption cost of products per ticket.

Recent accounting pronouncements.

Refer to Note 1 of Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

ITEM 7A. 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. Additionally, the cost of purchased materials may be influenced by tariffs and other trade regulations which are outside of our control. To the extent that we do not pass along cost increases to our customers, our results of operations may be adversely affected. Currently, we do not use financial instruments to hedge our commodity risk.

Interest Rate Risk

We are exposed to interest rate risk arising from changes in interest rates due to the variable rate indebtedness under our credit facility. Borrowings pursuant to our credit facility bear interest at a floating rate based on LIBOR, plus an applicable margin. Accordingly, fluctuations in market interest rates may increase or decrease our interest expense which will, in turn, increase or decrease our net income and cash flow. We estimate that a hypothetical 25 basis point

increase in one-month LIBOR would increase our annualized interest expense in the next year by approximately \$1,000, assuming no change in the balance of the revolving portion of the credit facility.

Subsequent to the end of fiscal 2018, the Company entered into an interest rate swap agreement with a notional amount of \$350,000 to manage our exposure to interest rate movements on our variable rate credit

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facility. The agreement will in effect, convert the floating interest rate to a fixed interest rate of 2.5% plus a spread from the effective date of February 28, 2019 through the term of our existing credit facility.

Inflation

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

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

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

ITEM 8. Financial Statements and Supplementary Data

The consolidated financial statements of the Company and supplementary data are included as pages F-1 through F-24 in this Report.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of February 3, 2019. Based upon that evaluation, our CEO and CFO concluded that, as of February 3, 2019, such disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Our management, including our CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our

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financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of February 3, 2019 based on the framework and criteria established in *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included reviewing the documentation of controls, evaluating the design effectiveness of controls, testing of the operating effectiveness of controls and concluding on this evaluation. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of February 3, 2019.

Our independent registered public accounting firm, KPMG LLP, audited the effectiveness of our internal control over financial reporting as of February 3, 2019, as stated in their report which is included herein.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

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PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is incorporated herein by reference to the sections entitled Proposal No.

1 Election of Directors , Directors and Corporate Governance , Executive Officers and Executive Compensation in the Proxy Statement.

ITEM 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference to the sections entitled Proposal No.

1 Election of Directors , Directors and Corporate Governance and Executive Compensation in the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is incorporated herein by reference to the sections entitled Executive Compensation and Security Ownership of Certain Beneficial Owners and Management in the Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated herein by reference to the sections entitled Directors and Corporate Governance and Transactions with Related Persons in the Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

The information required by Item 14 is incorporated herein by reference to the section entitled Proposal No. 2 Ratification of Appointment of Independent Registered Public Accounting Firm in the Proxy Statement.

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PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(1) Financial Statements
See Pages F-1 to F-24 of this Report.

(2) Financial Statement Schedules
None.

INDEX OF EXHIBITS

| Exhibit Number | Description |
|---------------------------|--|
| 3.1 | <u>Fourth Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Current Report filed on Form 8-K by Dave & Buster's Entertainment, Inc. on June 12, 2017 (No. 001-35664))</u> |
| 3.2 | <u>Third Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Current Report filed on Form 8-K by Dave & Buster's Entertainment, Inc. on June 12, 2017 (No. 001-35664))</u> |
| 4.1 | <u>Form of Stock Certificate (incorporated by reference to Exhibit 4.1 to the Amendment 1 to the Form S-1 Registration Statement filed by Dave & Buster's Entertainment, Inc. on September 24, 2014 (No. 333-198641))</u> |
| 10.1 | <u>Form of Employee Agreement by and among Dave & Buster's Management Corporation, Dave & Buster's Entertainment, Inc., and the various executive officers of Dave & Buster's Entertainment, Inc. (incorporated by reference to Exhibit 10.1 to the Form S-1 Registration Statement filed by Dave & Buster's Entertainment, Inc. on September 18, 2015 (No. 333-207031))</u> |
| 10.2 | <u>Dave & Buster's Parent, Inc. 2010 Management Incentive Plan (incorporated by reference to Exhibit 10.3 to the Form S-4 Registration Statement filed by Dave & Buster's, Inc. on August 11, 2010 (No. 333-168759))</u> |
| 10.3 | <u>Amendment No. 1 to the Dave & Buster's Parent, Inc. 2010 Management Incentive Plan (incorporated by reference to Exhibit 10.2 to the quarterly report on Form 10-Q filed by Dave & Buster's, Inc. on June 15, 2011) (No. 001-15007)</u> |
| 10.4 | <u>Amendment No. 2 to the Dave & Buster's Parent, Inc. 2010 Management Incentive Plan (incorporated by reference to Exhibit 10.6 to the annual report on Form 10-K filed by Dave & Buster's, Inc. on April 16, 2013) (No. 001-15007)</u> |
| 10.5 | |

Dave & Buster s Entertainment, Inc. 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 4.1 to the Form S-8 Registration Statement filed by Dave & Buster s Entertainment, Inc. on October 9, 2014 (No. 333-199239))

- 10.6 Form of Nonqualified Stock Option Award Agreement, by and between Dave & Buster s Entertainment, Inc. and various Directors of the Company (incorporated by reference to Exhibit 10.7 to the Form S-1 Registration Statement filed by Dave & Buster s Entertainment, Inc. on September 18, 2015 (No. 333-207031))
- 10.7 Form of Nonqualified Stock Option Award Agreement, by and between Dave & Buster s Entertainment, Inc. and various employees of the Company (incorporated by reference to Exhibit 10.8 to the Form S-1 Registration Statement filed by Dave & Buster s Entertainment, Inc. on September 18, 2015 (No. 333-207031))
- 10.8 Form of Restricted Stock Award Agreement, by and between Dave & Buster s Entertainment, Inc. and various Directors of the Company (incorporated by reference to Exhibit 10.9 to the Form S-1 Registration Statement filed by Dave & Buster s Entertainment, Inc. on September 18, 2015 (No. 333-207031))

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| Exhibit Number | Description |
|---------------------------|--|
| 10.9 | <u>Form of Restricted Stock Unit and Cash Award Agreement, by and between Dave & Buster's Entertainment, Inc. and various employees of the Company (incorporated by reference to Exhibit 10.10 to the Form S-1 Registration Statement filed by Dave & Buster's Entertainment, Inc. on September 18, 2015 (No. 333-207031))</u> |
| 10.10 | <u>Dave & Buster's Select Executive Retirement Plan as amended and restated by Dave & Buster's I, L.P., effective January 1, 2005 (incorporated by reference to Exhibit 10.11 to the Form S-1 Registration Statement filed by Dave & Buster's Entertainment, Inc. on September 8, 2014 (No. 333-198641))</u> |
| 10.11 | <u>Form of Indemnification Agreement for directors, executive officers and key employees (incorporated by reference to Exhibit 10.12 to the Amendment 1 to the Form S-1 Registration Statement filed by Dave & Buster's Entertainment, Inc. on September 24, 2014 (No. 333-198641))</u> |
| 10.12 | <u>Credit Agreement, dated as of August 17, 2017 by and among Dave & Buster's Holdings, Inc., Dave & Buster's Inc. (the Borrower) the direct and indirect Subsidiaries of the Borrower from time to time party thereto, as guarantors, the several financial institutions from time to time party thereto, as lenders, Bank of America, N.A., as administrative agent, and Wells Fargo, National Association, as syndication agent (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on August 23, 2017)</u> |
| 21.1* | <u>Subsidiaries of the Registrant</u> |
| 23.1* | <u>Consent of KPMG LLP, Independent Registered Public Accounting Firm</u> |
| 24.1* | <u>Power of Attorney (included on signature page)</u> |
| 31.1* | <u>Certification of Brian A. Jenkins, Chief Executive Officer, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a).</u> |
| 31.2* | <u>Certification of Joe DeProspero, Interim Chief Financial Officer of the Registrant, pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a).</u> |
| 32.1* | <u>Certification of Brian A. Jenkins, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.2* | <u>Certification of Joe DeProspero, Interim Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herein

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SIGNATURES

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

DAVE & BUSTER S ENTERTAINMENT, INC.,

a Delaware Corporation

Date: April 2, 2019

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

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned constitutes and appoints each of Brian A. Jenkins and Rob W. Edmund, or either of them, each acting alone, his/her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for such person and in his/her name, place and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he/she might or could do in person, hereby ratifying and confirming that any such attorney-in-fact and agent, or his/her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, we have signed in our indicated capacities on April 2, 2019.

| Signature | Title |
|--|---|
| By: /s/ Brian A. Jenkins Brian A. Jenkins | Chief Executive Officer and Director (Principal Executive Officer) |
| By: /s/ Joe DeProspero Joe DeProspero | Interim Chief Financial Officer (Principal Financial and Accounting Officer) |
| By: /s/ Stephen M. King Stephen M. King | Chairman of the Board |
| By: /s/ Victor L. Crawford Victor L. Crawford | Director |
| By: /s/ Hamish A. Dodds Hamish A. Dodds | Director |
| By: /s/ Michael J. Griffith | Director |

Michael J. Griffith

By: /s/ Jonathan S. Halkyard
Jonathan S. Halkyard

Director

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| Signature | Title |
|--|----------|
| By: /s/ Patricia H. Mueller Patricia H. Mueller | Director |
| By: /s/ Kevin M. Sheehan Kevin M. Sheehan | Director |
| By: /s/ Jennifer Storms Jennifer Storms | Director |

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Dave & Buster's Entertainment, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Dave & Buster's Entertainment, Inc.'s and subsidiaries (the Company) internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of February 3, 2019 and February 4, 2018, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the fiscal years ended February 3, 2019, February 4, 2018, and January 29, 2017, and the related notes (collectively, the consolidated financial statements), and our report dated April 2, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance

with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Dallas, Texas

April 2, 2019

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Dave & Buster's Entertainment, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Dave & Buster's Entertainment, Inc. and subsidiaries (the Company) as of February 3, 2019 and February 4, 2018, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the fiscal years ended February 3, 2019, February 4, 2018, and January 29, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 3, 2019 and February 4, 2018, and the results of its operations and its cash flows for each of the fiscal years ended February 3, 2019, February 4, 2018, and January 29, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 2, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2010.

Dallas, Texas

April 2, 2019

Table of Contents**DAVE & BUSTER S ENTERTAINMENT, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

| | February 3, 2019 | February 4, 2018 |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 21,585 | \$ 18,795 |
| Inventories | 27,315 | 27,560 |
| Prepaid expenses | 20,713 | 19,052 |
| Income taxes receivable | 1,880 | 4,867 |
| Other current assets | 19,600 | 24,633 |
| Total current assets | 91,093 | 94,907 |
| Property and equipment (net of \$578,178 and \$474,330 accumulated depreciation as of February 3, 2019 and February 4, 2018, respectively) | 805,337 | 726,455 |
| Deferred tax assets | 6,736 | 7,789 |
| Tradenames | 79,000 | 79,000 |
| Goodwill | 272,625 | 272,566 |
| Other assets and deferred charges | 18,396 | 16,313 |
| Total assets | \$ 1,273,187 | \$ 1,197,030 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current installments of long-term debt | \$ 15,000 | \$ 15,000 |
| Accounts payable | 60,427 | 54,627 |
| Accrued liabilities | 157,164 | 135,161 |
| Income taxes payable | 11,799 | 3,037 |
| Total current liabilities | 244,390 | 207,825 |
| Deferred income taxes | 14,634 | 10,213 |
| Deferred occupancy costs | 223,678 | 184,994 |
| Other liabilities | 24,179 | 21,103 |
| Long-term debt, net | 378,469 | 351,249 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, par value \$0.01; authorized: 400,000,000 shares; issued: 43,177,476 shares at February 3, 2019 and 42,660,806 shares at February 4, 2018; outstanding: 37,522,085 shares at February 3, 2019 and 40,102,085 shares at February 4, 2018 | 432 | 427 |
| Preferred stock, 50,000,000 authorized; none issued | | |

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| | | |
|--|--------------|--------------|
| Paid-in capital | 331,255 | 320,488 |
| Treasury stock, 5,655,391 and 2,558,721 shares as of February 3, 2019 and February 4, 2018, respectively | (297,129) | (147,331) |
| Accumulated other comprehensive loss | (683) | (249) |
| Retained earnings | 353,962 | 248,311 |
| Total stockholders' equity | 387,837 | 421,646 |
| Total liabilities and stockholders' equity | \$ 1,273,187 | \$ 1,197,030 |

See accompanying notes to consolidated financial statements.

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

(in thousands, except share and per share amounts)

| | Fiscal Year Ended February 3, 2019 | Fiscal Year Ended February 4, 2018 | Fiscal Year Ended January 29, 2017 |
|--|---|---|---|
| Food and beverage revenues | \$ 536,469 | \$ 494,816 | \$ 452,140 |
| Amusement and other revenues | 728,832 | 644,975 | 553,018 |
| Total revenues | 1,265,301 | 1,139,791 | 1,005,158 |
| Cost of food and beverage | 139,199 | 127,600 | 114,946 |
| Cost of amusement and other | 81,064 | 69,072 | 65,354 |
| Total cost of products | 220,263 | 196,672 | 180,300 |
| Operating payroll and benefits | 296,924 | 256,724 | 228,827 |
| Other store operating expenses | 384,155 | 334,546 | 287,322 |
| General and administrative expenses | 61,521 | 59,565 | 54,474 |
| Depreciation and amortization expense | 118,275 | 102,766 | 88,305 |
| Pre-opening costs | 23,163 | 23,746 | 15,414 |
| Total operating costs | 1,104,301 | 974,019 | 854,642 |
| Operating income | 161,000 | 165,772 | 150,516 |
| Interest expense, net | 13,113 | 8,665 | 6,985 |
| Loss on debt retirement | | 718 | |
| Income before provision for income taxes | 147,887 | 156,389 | 143,531 |
| Provision for income taxes | 30,666 | 35,440 | 52,736 |
| Net income | 117,221 | 120,949 | 90,795 |
| Unrealized foreign currency translation gain (loss) | (434) | 474 | 247 |
| Total comprehensive income | \$ 116,787 | \$ 121,423 | \$ 91,042 |
| Net Income per share: | | | |
| Basic | \$ 3.00 | \$ 2.93 | \$ 2.16 |
| Diluted | \$ 2.93 | \$ 2.84 | \$ 2.10 |
| Weighted average shares used in per share calculations: | | | |
| Basic | 39,047,106 | 41,276,314 | 41,951,770 |
| Diluted | 39,975,122 | 42,583,009 | 43,288,592 |
| Cash dividends per share | \$ 0.30 | \$ | \$ |

See accompanying notes to consolidated financial statements.

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

(in thousands, except share amounts)

| | Common Stock | | | Treasury Stock At Cost | | Accumulated Other Comprehensive Income | | Retained Earnings | Total |
|--|--------------|--------|--------------------|---------------------------|-----------|---|-----------|----------------------|-------|
| | Shares | Amt. | Paid-In Capital | Shares | Amt. | (loss) | | | |
| Balance | | | | | | | | | |
| January 31, 2016 | 41,618,933 | \$ 416 | \$ 280,828 | | \$ | \$ (970) | \$ 66,064 | \$ 346,338 | |
| Net income | | | | | | | 90,795 | 90,795 | |
| Unrealized foreign currency translation gain | | | | | | 247 | | 247 | |
| Share-based compensation | | | 5,828 | | | | | 5,828 | |
| Issuance of common stock | 850,637 | 9 | 4,351 | | | | | 4,360 | |
| Excess income tax benefit related to share-based compensation plans | | | 19,304 | | | | | 19,304 | |
| Repurchase of common stock | | | | 566,756 | (28,825) | | | (28,825) | |
| Issuance of treasury stock | | | (81) | (301,773) | 14,008 | | (12,522) | 1,405 | |
| Balance | | | | | | | | | |
| January 29, 2017 | 42,469,570 | 425 | 310,230 | 264,983 | (14,817) | (723) | 144,337 | 439,452 | |
| Net income | | | | | | | 120,949 | 120,949 | |
| Unrealized foreign currency translation gain | | | | | | 474 | | 474 | |
| Share-based compensation | | | 8,916 | | | | | 8,916 | |
| Cumulative effect of a change in accounting principle | | | | | | | 782 | 782 | |
| Issuance of common stock | 191,236 | 2 | 1,342 | | | | | 1,344 | |
| | | | | 2,636,616 | (151,913) | | | (151,913) | |

| | | | | | | | | |
|--|------------|--------|------------|-----------|--------------|----------|------------|------------|
| Repurchase of common stock | | | | | | | | |
| Issuance of treasury stock | | | | (342,878) | 19,399 | | (17,757) | 1,642 |
| Balance | | | | | | | | |
| February 4, 2018 | 42,660,806 | 427 | 320,488 | 2,558,721 | (147,331) | (249) | 248,311 | 421,646 |
| Net income | | | | | | | 117,221 | 117,221 |
| Unrealized foreign currency translation loss | | | | | | | (434) | (434) |
| Dividends (\$0.30 per share) | | | | | | | (11,570) | (11,570) |
| Share-based compensation | | | 7,422 | | | | | 7,422 |
| Issuance of common stock | 516,670 | 5 | 3,345 | | | | | 3,350 |
| Repurchase of common stock | | | | 3,096,670 | (149,798) | | | (149,798) |
| Balance | | | | | | | | |
| February 3, 2019 | 43,177,476 | \$ 432 | \$ 331,255 | 5,655,391 | \$ (297,129) | \$ (683) | \$ 353,962 | \$ 387,837 |

See accompanying notes to consolidated financial statements.

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DAVE & BUSTER S ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | Fiscal Year Ended February 3, 2019 | Fiscal Year Ended February 4, 2018 | Fiscal Year Ended January 29, 2017 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | \$ 117,221 | \$ 120,949 | \$ 90,795 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization expense | 118,275 | 102,766 | 88,305 |
| Deferred taxes | 5,474 | (8,845) | 6,961 |
| Excess income tax benefit related to share-based compensation plans | | | (19,304) |
| Loss on debt refinancing | | 718 | |
| Loss on disposal of fixed assets | 1,121 | 1,863 | 1,533 |
| Share-based compensation | 7,422 | 8,916 | 5,828 |
| Other, net | 1,049 | 881 | 1,467 |
| Changes in assets and liabilities: | | | |
| Inventories | 245 | (5,700) | (2,331) |
| Prepaid expenses | (1,661) | (3,224) | (2,874) |
| Income tax receivable | 2,987 | 1,034 | (1,755) |
| Other current assets | 4,705 | (13,361) | 6,032 |
| Other assets and deferred charges | (2,523) | (224) | 487 |
| Accounts payable | 11,122 | (4,071) | 832 |
| Accrued liabilities | 21,329 | 22,394 | 14,431 |
| Income taxes payable | 8,762 | 345 | 19,299 |
| Deferred occupancy costs | 38,958 | 37,702 | 20,156 |
| Other liabilities | 3,130 | 2,529 | 1,467 |
| Net cash provided by operating activities | 337,616 | 264,672 | 231,329 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (216,286) | (219,901) | (180,577) |
| Proceeds from sale-leaseback transactions | 11,571 | | 20,262 |
| Proceeds from insurance | 541 | | |
| Proceeds from sales of property and equipment | 366 | 78 | 30 |
| Collections on notes receivable | | 3,200 | 800 |
| Net cash used in investing activities | (203,808) | (216,623) | (159,485) |
| Cash flows from financing activities: | | | |

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| | | | |
|---|------------------|------------------|------------------|
| Proceeds from debt | 265,000 | 509,000 | 97,000 |
| Payments of debt | (238,000) | (406,500) | (170,500) |
| Debt issuance costs | | (2,910) | |
| Repurchase of common stock | (149,125) | (151,913) | (28,825) |
| Repurchases of common stock to satisfy employee withholding tax obligations | (673) | | |
| Dividends paid | (11,570) | | |
| Proceeds from the exercise of stock options | 3,350 | 1,344 | 4,360 |
| Proceeds from issuance of treasury stock | | 1,642 | 1,405 |
| Excess income tax benefit related to share-based compensation plans | | | 19,304 |
| Net cash used in financing activities | (131,018) | (49,337) | (77,256) |
| Increase (decrease) in cash and cash equivalents | 2,790 | (1,288) | (5,412) |
| Beginning cash and cash equivalents | 18,795 | 20,083 | 25,495 |
| Ending cash and cash equivalents | \$ 21,585 | \$ 18,795 | \$ 20,083 |

Supplemental disclosures of cash flow information:

| | | | |
|---|------------|-----------|-----------|
| Increase (decrease) in fixed asset accounts payable | \$ (5,321) | \$ 3,420 | \$ 11,610 |
| Cash paid for income taxes, net | \$ 13,464 | \$ 43,072 | \$ 28,213 |
| Cash paid for interest, net | \$ 12,247 | \$ 7,853 | \$ 6,603 |

See accompanying notes to consolidated financial statements.

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DAVE & BUSTER S ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

Note 1: Description of the Business and Summary of Significant Accounting Policies

Description of the business 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, and its wholly-owned subsidiaries, Dave & Buster s Holdings, Inc. (D&B Holdings), a holding company which owns 100% of the outstanding common stock of Dave & Buster s, Inc. (D&B Inc), the operating company. The Company, headquartered in Dallas, Texas, is a leading operator of high-volume entertainment and dining venues (stores) in North America for adults and families under the name Dave & Buster s . The Company operates its business as one operating and one reportable segment. As of February 3, 2019, we owned and operated 121 stores located in 39 states, Puerto Rico and one Canadian province. Subsequently, we closed a store in Duluth (Atlanta), Georgia on March 3, 2019.

We own and operate two stores outside of the United States, in the Canadian province of Ontario. These stores generated revenues of approximately \$18,848, \$20,075 and \$13,369 in fiscal 2018, 2017 and 2016, respectively. As of February 3, 2019, less than 2.0% of our long-lived assets were located outside of the United States.

Principles of consolidation The accompanying consolidated financial statements include the accounts of D&B Entertainment and its wholly-owned subsidiaries and have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). All intercompany accounts and transactions have been eliminated in consolidation.

Fiscal year The Company s fiscal year consists of 52 or 53 weeks ending on the Sunday after the Saturday closest to January 31. Fiscal 2018, which ended on February 3, 2019, contained 52 weeks. Fiscal 2017, which ended on February 4, 2018, contained 53 weeks. Fiscal 2016, which ended on January 29, 2017, contained 52 weeks. Each quarterly period has 13 weeks, except in a 53-week year when the fourth quarter has 14 weeks.

Use of estimates The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities at the date of the consolidated financial statements and for the period then ended. Actual results could differ from those estimates.

Cash and cash equivalents We consider transaction settlements in process from credit card companies and all highly-liquid investments with original maturities of three months or less to be cash equivalents. Our cash management system provides for the daily funding of all major bank disbursement accounts as checks are presented for payment. Under this system, outstanding checks in excess of the cash balances at certain banks creates book overdrafts. Book overdrafts of \$12,782 and \$3,416 are presented in Accounts payable in the Consolidated Balance Sheets as of February 3, 2019 and February 4, 2018, respectively. Changes in the book overdraft position are presented within Net cash provided by operating activities within the Consolidated Statements of Cash Flows. The adoption of Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash and ASU 2016-15, Statement of Cash Flows (Topic 230) during the current fiscal year did not have an impact on our consolidated financial statements. As of February 3, 2019, the Company had no restricted cash.

Concentration of credit risk Cash and cash equivalents are maintained with multiple financial institutions. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore bear minimal credit risk. The Company holds cash and cash equivalents at financial institutions in excess of amounts covered by the Federal Deposit Insurance Corporation.

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Inventories Inventories consist of food, beverages, amusement merchandise and other supplies and are stated at the lower of cost (first-in, first-out method) or net realizable value. We record inventory reserves for obsolete and slow-moving inventory.

Other current assets Other current assets include receivables for tenant improvement allowances of \$10,742 and \$14,941 as of February 3, 2019 and February 4, 2018, respectively, primarily related to our new store openings. We consider the concentration of credit risk for tenant improvement allowance receivables from landlords to be minimal due to the payment histories and general financial condition of our landlords.

Property and equipment Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line method, based on the shorter of the estimated useful lives or the terms of the underlying leases of the related assets. Estimated depreciable lives for the categories of property and equipment follows:

| | Estimated Depreciable Lives (In Years) |
|------------------------------------|---|
| Building and building improvements | 5-40 |
| Leasehold improvements | 5-20 |
| Furniture, fixtures and equipment | 3-10 |
| Games | 3-20 |

Expenditures that extend the life, increase capacity or improve the safety or the efficiency of the property and equipment are capitalized, whereas costs incurred to maintain the appearance and functionality of such assets are charged to repair and maintenance expense. Application development stage costs for significant internally-developed software projects are capitalized and amortized as part of furniture, fixtures and equipment. Interest cost on funds used during the acquisition period of significant capital assets are capitalized as part of the asset and depreciated. Gains and losses related to store property and equipment disposals are recorded in Other store operating expenses in the Consolidated Statements of Comprehensive Income.

We evaluate our property and equipment annually or more frequently if an event occurs or circumstances change that would indicate that the carrying values of these long-lived assets may not be recoverable. In determining the recoverability of the asset value, an analysis is performed at the individual store level, since this is the lowest level of identifiable cash flows and primarily includes an assessment of historical cash flows and other relevant factors and circumstances, including the maturity of the store, changes in the economic environment, unfavorable changes in legal factors or business climate and future operating plans. If the carrying amount is not recoverable, we record an impairment charge, if any, for the excess of the carrying amount over the fair value, which is estimated based on discounted projected future operating cash flows of the store over the remaining service life using a risk adjusted discount rate that is commensurate with the inherent risk. No impairment charges were recognized in fiscal 2018, 2017 or 2016.

Goodwill and tradenames The carrying amount of goodwill is impacted by foreign currency translation adjustments. The foreign currency translation adjustment increased goodwill by \$59 and decreased goodwill by \$63 during fiscal 2018 and fiscal 2017, respectively. Goodwill and tradenames which have an indefinite useful life, are not subject to amortization, and are evaluated for impairment annually or more frequently if an event occurs or circumstances change that would indicate that impairment may exist. Goodwill and tradenames are evaluated at year end at the level of the Company's single operating segment, which also represents the Company's only reporting unit.

When evaluating goodwill and tradenames for impairment, the Company first performs a qualitative assessment to determine whether it is more likely than not that its reporting unit or tradenames are impaired. For fiscal year 2018, 2017 and 2016, there was no impairment to our goodwill or tradenames.

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Other intangible assets The costs of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized as indefinite-lived intangible assets and are tested for impairment annually by comparing the estimated fair value of each asset with their carrying amount. The balance of transferable liquor licenses was \$3,837 and \$3,398 at the end of fiscal 2018 and fiscal 2017, respectively. Other intangible assets also include intellectual property licenses associated with some of our proprietary amusement offerings. Intellectual license costs are amortized over the respective term of the license agreements and the related amortization of \$259 in fiscal 2018 is included in Other store operating expenses in the Consolidated Statements of Comprehensive Income. The weighted average term of the license agreements is approximately five years and the unamortized balance of our intellectual property licenses was \$2,029 at February 3, 2019.

Amortization expense in fiscal 2018, 2017 and 2016 includes \$188, \$588 and \$1,399, respectively, of amortization associated with our trademarks, which were fully amortized as of the end of fiscal 2017, and our customer relationships, which had an unamortized balance of \$61 as of February 3, 2019. Other intangible assets, net of any applicable accumulated amortization, are included in Other assets and deferred charges on the Consolidated Balance Sheets.

Debt issuance costs The Company capitalizes certain costs incurred in connection with borrowings or establishment of credit facilities, and these costs are amortized as interest expense over the life of the borrowing or life of the related debt facility. Debt issuance costs on the revolving portion of our credit facility of \$2,026 and \$2,597 at the end of fiscal 2018 and fiscal 2017, respectively, are included in Other assets and deferred charges in the Consolidated Balance Sheets. Debt issuance costs on the term loan portion of our credit facility are reported as a direct reduction from the carrying amount of our debt.

Fair value of financial instruments Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date under current market conditions. 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 or liabilities in active markets; Level Two inputs are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; and Level Three inputs are unobservable and reflect management's own assumptions.

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

Revenue recognition During the first quarter of 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), using the cumulative-effect method. The new standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption did not have an impact in our consolidated financial statements, other than the enhancement of our disclosures related to our revenue-generating activities.

Food and beverage revenues are recognized when payment is tendered at the point of sale. Amusement revenues are primarily recognized upon utilization of game play credits on Power Cards purchased and used by customers to activate most of the video and redemption games. We have deferred a portion of revenues for the estimated unfulfilled performance obligations related to unused game play credits which we believe our customers will utilize in the future. Our estimates are based on an analysis of credits remaining on Power Cards, historic utilization patterns and revenue

per game play credit sold. Total deferred amusement revenue is included in Accrued liabilities in our Consolidated Balance Sheets. During the fiscal year ended February 3, 2019, we

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recognized revenue of approximately \$19,300 related to the amount in deferred amusement revenue as of the end of fiscal 2017.

We sell gift cards, which do not have expiration dates, and we do not deduct non-usage fees from outstanding gift card balances. The Company recognizes revenue from gift cards upon redemption by the customer. For unredeemed gift cards that the Company expects to be entitled to breakage and for which there is not a legal obligation to remit the unredeemed gift card balances to the relevant jurisdictions, the Company recognizes expected breakage as revenue in proportion to the pattern of redemption by the customers. The determination of the gift card breakage is based on the Company's specific historical redemption patterns. Recognized gift card breakage revenue is included in Amusements and other revenues in the Consolidated Statements of Comprehensive Income. The contract liability related to our gift cards is included in Accrued liabilities in our Consolidated Balance Sheets. During the fiscal year ended February 3, 2019, we recognized revenue of approximately \$4,000 related to the amount in deferred gift card revenue as of the end of fiscal 2017, of which approximately \$660 was gift card breakage revenue.

Revenues are reported net of sales-related taxes collected from customers to be remitted to governmental taxing authorities. Sales tax collected is included in Accrued liabilities until the taxes are remitted to the appropriate taxing authorities. Certain of our promotional programs include multiple performance obligations that are discounted from the standalone selling prices. We allocate the entire discount to the amusement performance obligation.

Amusements costs of products Certain midway games allow customers to earn tickets, which may be redeemed for prizes. The cost of these prizes is included in the cost of amusement products and is generally recorded when tickets are utilized by the customer by redeeming the tickets for a prize in our WIN! area. Customers may also store the ticket value on a Power Card for future redemption. We have recorded a liability for the estimated amount of outstanding tickets that we believe will be redeemed in subsequent periods based on tickets outstanding, historic redemption patterns and the estimated redemption cost of products per ticket.

Advertising costs Advertising production costs are expensed in the period when the advertising first takes place. Other advertising costs are expensed as incurred. Advertising costs expensed were \$40,767, \$37,876 and \$33,795 in fiscal 2018, 2017 and 2016, respectively. Advertising costs are included in Other store operating expenses in the Consolidated Statements of Comprehensive Income.

Leases We currently lease the building or site of all of our stores under operating leases. The Company's lease agreements generally contain rent holidays and/or escalating rent clauses. The Company recognizes minimum rent expense on a straight-line basis over the lease term, which includes reasonably assured renewal periods. The lease term begins when the Company has the right to control the use of the property, which is typically before rent payments are due under the lease agreement. The difference between the rent expense and rent paid is recorded as deferred rent within Accrued liabilities or Deferred occupancy costs in the Consolidated Balance Sheets. Tenant improvement allowances are also recorded in Accrued liabilities or Deferred occupancy costs and amortized as reductions of lease rent expense ratably over the lease term.

The fair values of acquired lease contracts having contractual rents higher than fair market rents (unfavorable leases) or lower than fair market rents (favorable leases) are amortized on a straight-line basis over the remaining initial lease term. The current and non-current portions of unfavorable leases are included in Accrued liabilities and Deferred occupancy costs, respectively, in the Consolidated Balance Sheets. The current and non-current portions of favorable leases are included in Other current assets and Other assets and deferred charges, respectively, in the Consolidated Balance Sheets.

Additionally, certain of our lease agreements contain clauses that provide for additional contingent rent based on a percentage of sales greater than certain specified target amounts. We recognize contingent rent expense provided the achievement of that target is considered probable.

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Self-insurance programs The Company utilizes a self-insurance plan for health, general liability and workers compensation coverage. To limit our exposure to losses, we maintain stop-loss coverage through third-party insurers. Losses are accrued based on the Company's historical claims experience and loss reserves, assisted by independent third-party actuaries. The estimated cost to settle reported claims and incurred but unreported claims is included in **Accrued liabilities** and **Other liabilities** in the Consolidated Balance Sheets.

Pre-opening costs Pre-opening costs include costs associated with the opening and organizing of new stores, including the cost of feasibility studies, pre-opening rent, training, relocation, recruiting and travel costs for employees engaged in such pre-opening activities. All pre-opening costs are expensed as incurred.

Income taxes Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the balance sheet carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effects of changes in income tax rates or law changes are included in the provision for income taxes in the period enacted. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if we determine that it is more likely than not that such assets will not be realized. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

The calculation of tax liabilities involves judgment and evaluation of uncertainties in the interpretation of federal and state tax regulations. As a result, we have established accruals for taxes that may become payable in future years as a result of audits by tax authorities. Tax accruals are reviewed regularly pursuant to accounting guidance for uncertainty in income taxes. Tax accruals are adjusted as events occur that affect the potential liability for taxes such as the expiration of statutes of limitations, conclusion of tax audits, identification of additional exposure based on current calculations, identification of new issues, or the issuance of statutory or administrative guidance or rendering of a court decision affecting a certain issue. Accordingly, we may experience significant changes in tax accruals in the future, if or when such events occur.

After the adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718), the Company began recording excess tax benefits or shortfalls to the provision for income taxes in the Consolidated Statements of Comprehensive Income beginning in fiscal 2017. In prior years, any similar excess tax benefits were recorded as an adjustment to additional paid-in capital in the Consolidated Balance Sheets. The Company recorded excess tax benefits of \$4,998 and \$11,491 in fiscal 2018 and fiscal 2017, respectively, to the provision for income taxes in the Consolidated Statements of Comprehensive Income. In connection with the adoption of the new accounting guidance in fiscal 2017 we recorded an adjustment to retained earnings of \$782 to recognize deferred tax assets related to certain state net operating loss carryforwards attributable to excess tax benefits in share-based compensation that had not been previously recognized in additional paid-in capital.

Foreign currency Foreign currency translation adjustments represent the unrealized impact of translating the financial statements of our Canadian stores from their respective functional currency (Canadian dollars) to U.S. dollars and are reported as a component of comprehensive income and recorded in **Accumulated other comprehensive loss** on our Consolidated Balance Sheets. Gains and losses from foreign currency transactions are recognized in **Other store operating expenses** in the Consolidated Statements of Comprehensive Income.

Recent accounting pronouncements In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, Leases (Topic 842). This new guidance requires the recognition of lease liabilities, representing future minimum lease payments, on a discounted basis, and corresponding right-of-use assets on the balance sheet for most

leases, along with requirements for enhanced disclosures of key information about its leasing arrangements. This guidance is effective for the Company in fiscal 2019, with early adoption permitted, and modified retrospective application is required with an option to not restate comparative periods in the period of adoption.

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The Company will adopt this guidance during our first quarter of fiscal 2019 without restating comparative periods and recognizing a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. We plan to elect to apply the package of practical expedients that permit us to not reassess existing contracts for embedded leases or to reassess lease classification or initial direct costs. We also plan to make policy elections not to apply the balance sheet recognition requirements for qualifying short-term leases and not to separate non-lease components from lease components, as applicable, to our facility leases.

The adoption of this guidance is expected to have a material impact on our Consolidated Balance Sheets. We expect to recognize additional operating liabilities of approximately \$1,050,000 to \$1,175,000 for existing operating leases, based on the present value of the remaining minimum rental payments. We expect to recognize the corresponding right-of-use assets of approximately \$825,000 to \$925,000, which includes the change in presentation of approximately \$225,000 to \$250,000 of deferred occupancy costs. We estimate the cumulative effect reduction to the opening balance sheet of retained earnings from adjustments resulting from adoption of this guidance to be approximately \$150, net of tax.

The Company has not yet finalized quantifying the impact, if any, of leases included in certain other contracts and may identify other impacts. The Company also continues to evaluate the impact the adoption of this new guidance will have on financial statement disclosures, in addition to evaluating business processes and internal controls related to lease accounting to assist in the ongoing application of the new guidance. The new guidance is not expected to impact any covenants related to the Company's long-term debt because the current credit facility agreements specify that covenant ratios be calculated using GAAP in effect at the time the credit facility agreements were entered.

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

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, which eliminates, modifies and adds disclosure requirements for fair value measurements. The update is effective for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, with early adoption permitted. The Company is currently assessing the impact of this new standard on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal Use Software (Subtopic 350-40), which aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs. The new standard requires the capitalized implementation costs of a hosting arrangement that is a service contract to be expensed over the term of the hosting arrangement and to present the expense in the same line item in the Consolidated Statements of Comprehensive Income as the fees associated with the hosting element of the arrangement. This update is effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and can be applied either retrospectively or prospectively. We early adopted this guidance during fiscal 2018, and there was no significant impact upon adoption. Capitalized implementation costs are included in Prepaid expenses in the Consolidated Balance Sheets.

Table of Contents**Note 2: Inventories**

Inventories consist of the following for the fiscal years ended:

| | February 3, 2019 | February 4, 2018 |
|---|-----------------------------|-----------------------------|
| Operating store food and beverage | \$ 7,617 | \$ 6,977 |
| Operating store amusement | 9,258 | 8,964 |
| Corporate amusement, supplies and other | 10,440 | 11,619 |
| | \$ 27,315 | \$ 27,560 |

Amusement inventory includes electronics, plush toys and small novelty and other items used as redemption prizes for certain midway games, as well as supplies needed for midway operations.

Note 3: Property and Equipment

Property and equipment consist of the following for the fiscal years ended:

| | February 3, 2019 | February 4, 2018 |
|-------------------------------------|-----------------------------|-----------------------------|
| Land | \$ 2,444 | \$ 3,608 |
| Buildings and building improvements | 17,153 | 25,222 |
| Leasehold improvements | 698,328 | 597,649 |
| Furniture, fixtures and equipment | 338,605 | 287,418 |
| Games | 251,819 | 204,593 |
| Construction in progress | 75,166 | 82,295 |
| Total cost | 1,383,515 | 1,200,785 |
| Accumulated depreciation | (578,178) | (474,330) |
| Property and equipment, net | \$ 805,337 | \$ 726,455 |

Depreciation expense totaled \$118,087 for fiscal 2018, \$102,178 for fiscal 2017, and \$86,906 for fiscal 2016.

During fiscal 2018, we purchased land in Wichita, Kansas in the amount of \$2,444. Additionally, during fiscal 2018, we completed a sale-leaseback transaction under which we sold the land and buildings of one of our stores to an unrelated party, we recorded net proceeds from the sale of \$11,571 and a loss of \$13 on the transaction. During fiscal 2016, we completed sale-leaseback transactions under which we sold the land and buildings of two of our stores to an unrelated party, and recorded net proceeds from the sales of \$20,262. Gains of \$126 realized from the fiscal 2016 sale-leaseback transactions were deferred and are being amortized over the initial lease term of the respective leases. All leases entered into as a result of the sale-leaseback transactions are classified as operating leases.

Table of Contents**Note 4: Accrued Liabilities**

Accrued liabilities consist of the following as of the fiscal years ended:

| | February 3, 2019 | February 4, 2018 |
|--|-----------------------------|-----------------------------|
| Deferred amusement revenue | \$ 44,232 | \$ 33,806 |
| Compensation and benefits | 24,280 | 19,959 |
| Amusement redemption liability | 19,911 | 18,041 |
| Rent | 17,982 | 16,478 |
| Deferred gift card revenue | 9,450 | 7,583 |
| Property taxes | 7,278 | 6,054 |
| Current portion of long term insurance | 5,900 | 4,600 |
| Sales and use taxes | 5,226 | 5,191 |
| Utilities | 4,032 | 3,554 |
| Customer deposits | 3,731 | 3,250 |
| Inventory liabilities | 2,876 | 4,336 |
| Other (Refer to Note 10) | 12,266 | 12,309 |
| Total accrued liabilities | \$ 157,164 | \$ 135,161 |

Note 5: Debt

Long-term debt consists of the following as of the fiscal years ended:

| | February 3, 2019 | February 4, 2018 |
|--------------------------------|-----------------------------|-----------------------------|
| Credit Facility term | \$ 281,250 | \$ 296,250 |
| Credit Facility revolver | 113,000 | 71,000 |
| Total debt outstanding | 394,250 | 367,250 |
| Less current installments term | (15,000) | (15,000) |
| Less debt issuance costs term | (781) | (1,001) |
| Long-term debt, net | \$ 378,469 | \$ 351,249 |

On August 17, 2017, we entered a senior secured credit facility that provides a \$300,000 term loan facility and a \$500,000 revolving credit facility with a maturity date of August 17, 2022. The \$500,000 revolving credit facility includes a \$35,000 letter of credit sub-facility and a \$15,000 swing loan sub-facility. The revolving credit facility is available to provide financing for general purposes. Principal payments on the term loan facility of \$3,750 per quarter are required beginning December 31, 2017 through maturity, when the remaining balance is due. Our current credit facility is secured by the assets of D&B Inc and is unconditionally guaranteed by D&B Holdings and each of its direct and indirect domestic wholly-owned subsidiaries. As of February 3, 2019, we had letters of credit outstanding of \$5,047 and \$381,953 of borrowing available under our credit facility.

At the time of the refinancing in fiscal 2017, the majority of proceeds from this senior secured credit facility was used to refinance in full the May 15, 2015 credit facility (of which \$291,000 was outstanding) and to pay related interest and expenses. We incurred debt costs of \$2,910, of which \$397 was expensed as a loss on debt refinancing, and the remaining debt costs are being amortized over the life of the credit facility. The total loss on debt refinancing during fiscal 2017, including a portion of unamortized debt costs written off, was \$718.

The interest rates per annum applicable to loans, other than swing loans, under our existing credit facility are currently set based on a defined LIBOR rate plus an applicable margin. Swing loans bear interest at a base rate plus an applicable margin. The loans bear interest subject to a pricing grid based on a total leverage ratio, at

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LIBOR plus a spread ranging from 1.25% to 2.00% for the term loans and the revolving loans. The stated weighted average interest rate at February 3, 2019 was 3.75%. The fiscal 2018 weighted average effective interest rate was 3.84%. 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 February 3, 2019, the Company was in compliance with the restrictive and financial ratio covenants of our credit facility.

Future debt obligations Below is our future debt principal payment obligations as of February 3, 2019 by fiscal year:

| | |
|-----------------------|------------|
| 2019 | \$ 15,000 |
| 2020 | 15,000 |
| 2021 | 15,000 |
| 2022 | 349,250 |
| Thereafter | |
| Total future payments | \$ 394,250 |

Interest expense, net The following tables set forth our recorded interest expense, net for the fiscal years ended:

| | February 3, 2019 | February 4, 2018 | January 29, 2017 |
|--|-----------------------------|-----------------------------|-----------------------------|
| Interest expense on credit facilities | \$ 13,408 | \$ 8,697 | \$ 6,896 |
| Amortization of issuance cost and discount | 792 | 739 | 674 |
| Interest income | (136) | (224) | (271) |
| Capitalized interest | (1,009) | (786) | (462) |
| Change in fair value of interest rate cap | 58 | 239 | 148 |
| Total interest expense, net | \$ 13,113 | \$ 8,665 | \$ 6,985 |

Note 6: Income Taxes

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (Tax Act). The Tax Act contains significant changes to corporate taxation, including a reduction of the corporate tax rate from 35% to 21%, creating a territorial tax system, allowing for immediate expensing of certain qualified property, modifying or repealing many business deductions and credits, implementing a deemed repatriation transition tax, and providing other incentives. In response to the Tax Act, on December 22, 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 (SAB 118) to provide guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Act in the period of enactment and provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. During fiscal 2018, there was no material changes to the provisional amount recorded in fiscal 2017.

Our federal statutory rate for fiscal 2018 is 21.0% and fiscal 2017 was 33.7%.

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The following table sets forth our provision for income taxes for the fiscal years ended:

| | February 3, 2019 | February 4, 2018 | January 29, 2017 |
|---|---------------------|---------------------|---------------------|
| Current provision: | | | |
| Federal | \$ 13,456 | \$ 35,195 | \$ 35,596 |
| State and local | 10,730 | 9,112 | 10,107 |
| Foreign | 1,006 | (22) | 72 |
| Total current provision | 25,192 | 44,285 | 45,775 |
| Deferred provision (benefit): | | | |
| Federal | 5,029 | (5,697) | 7,318 |
| State and local | (228) | (2,885) | (287) |
| Foreign | 673 | (263) | (70) |
| Total deferred provision (benefit) | 5,474 | (8,845) | 6,961 |
| Provision for income taxes | \$ 30,666 | \$ 35,440 | \$ 52,736 |

The following tables set forth the significant components of our deferred assets and liabilities as of the fiscal years ended:

| | February 3, 2019 | February 4, 2018 |
|--|---------------------|---------------------|
| Deferred tax assets: | | |
| Deferred revenue and redemption ticket liability | \$ 18,503 | \$ 14,994 |
| Leasing transactions | 16,678 | 12,891 |
| Accrued liabilities | 5,510 | 4,631 |
| Workers compensation and general liability insurance | 4,103 | 3,386 |
| Share-based compensation | 5,991 | 5,289 |
| Net operating loss carryovers | 3,177 | 3,715 |
| Indirect benefit of unrecognized tax benefits | 574 | 398 |
| Other | 2,431 | 2,626 |
| Total | 56,967 | 47,930 |
| Valuation allowance | (1,341) | (402) |
| Total deferred tax assets, net of valuation allowance | 55,626 | 47,528 |
| Deferred tax liabilities: | | |
| Trademark/tradename | (21,498) | (21,413) |
| Property and equipment | (40,171) | (25,797) |
| Other | (1,855) | (2,742) |

| | | |
|--|------------|------------|
| Total deferred tax liabilities | (63,524) | (49,952) |
| Net deferred tax liabilities | \$ (7,898) | \$ (2,424) |
| Reported as: | | |
| Deferred tax assets, net noncurrent | 6,736 | 7,789 |
| Deferred tax liabilities, net noncurrent | (14,634) | (10,213) |
| Net deferred tax liabilities | \$ (7,898) | \$ (2,424) |

At February 3, 2019, we had a valuation allowance of \$1,341 against our deferred tax assets. The ultimate realization of our deferred tax assets is dependent on the generation of future taxable income in the jurisdiction and during periods in which temporary differences become deductible. In assessing the realizability of our deferred tax assets, we considered whether it is more likely than not that some or all of the deferred tax assets

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will not be realized. Based on the level of recent historical taxable income, consistent generation of annual taxable income, and estimations of future taxable income, we have concluded that it is more likely than not that we will realize the federal tax benefits associated with most of our deferred tax assets. The Tax Act repealed the performance-based compensation exception to the executive compensation limitation. A transition rule applies that allows payments to qualify for the exception if the payments are made pursuant to a written binding contract that was in effect on November 2, 2017 and has not since been materially modified. A valuation allowance of \$409 was recorded in fiscal 2018 to reduce the portion of deferred tax assets related to executive compensation payments made pursuant to contracts in effect after November 2, 2017 to an amount which we believe will ultimately be realized. We assessed the realizability of the deferred tax assets associated with state taxes, foreign taxes and uncertain tax positions and have concluded that it is more likely than not that we will realize only a portion of these benefits. Accordingly, we have established a valuation allowance to reduce those deferred tax assets to an amount which we believe will ultimately be realized.

As of February 3, 2019, we have \$61,402 of state net operating loss carryforwards, which expire beginning 2019 through 2038.

The following table sets forth the change in unrecognized tax benefits excluding interest, penalties and related income tax benefits for the fiscal years ended:

| | February 3, 2019 | February 4, 2018 | January 29, 2017 |
|---|-------------------------|-------------------------|-------------------------|
| Balance at beginning of year | \$ 1,568 | \$ 1,348 | \$ 1,263 |
| Additions for tax positions of current year | 437 | 290 | 240 |
| Additions for tax positions of prior years | 435 | | |
| Reductions for tax positions of prior years | (30) | (31) | (76) |
| Lapse of statute of limitations | (77) | (39) | (79) |
| Balance at end of year | \$ 2,333 | \$ 1,568 | \$ 1,348 |

The accrued interest and penalties on the unrecognized tax benefits, excluding any related income tax benefits, were \$394 and \$360 as of February 3, 2019 and February 4, 2018, respectively. The Company recorded accrued interest related to the unrecognized tax benefits and penalties as a component of the provision for income taxes recognized in the Consolidated Statements of Comprehensive Income.

We currently anticipate that approximately \$668 of unrecognized tax benefits will be settled through federal and state audits or will be recognized because of the expiration of statute of limitations during fiscal 2019. Future recognition of potential interest or penalties, if any, will be recorded as a component of our income tax provision. Due to the impact of deferred tax accounting, \$2,153 of unrecognized tax benefits, if recognized, would affect the effective tax rate.

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The following table sets forth the reconciliation of the federal statutory rate to the effective income tax rate for the fiscal years ended:

| | February 3, 2019 | February 4, 2018 | January 29, 2017 |
|---|-------------------------|-------------------------|-------------------------|
| Federal corporate statutory rate | 21.0% | 33.7% | 35.0% |
| State and local income taxes, net of federal income tax benefit | 5.3% | 3.8% | 4.4% |
| Foreign taxes | 0.5% | (0.2)% | % |
| Non deductible expenses | 1.2% | 1.4% | 1.5% |
| Tax credits | (5.0)% | (4.0)% | (4.1)% |
| Valuation allowance | 0.6% | (0.3)% | (0.1)% |
| Tax contingency reserves | 0.6% | 0.1% | % |
| Share-based compensation | (3.4)% | (7.3)% | % |
| Impacts related to the Tax Act | % | (5.1)% | % |
| Other | (0.1)% | 0.6% | % |
| Effective tax rate | 20.7% | 22.7% | 36.7% |

We file consolidated income tax returns with all our domestic subsidiaries, which are periodically audited by various federal, state and foreign jurisdictions. We are generally no longer subject to federal, state, or foreign income tax examinations for years prior to 2014.

Note 7: Leases

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. Store rent expense is included in Other store operating expenses or Pre-opening costs accordingly, and rent expense related to our corporate offices is included in General and administrative expenses in the Consolidated Statements of Comprehensive Income. For fiscal 2018, rent expense for operating leases was \$113,007, including contingent rentals of \$3,526. For fiscal 2017, rent expense for operating leases was \$96,814, including contingent rentals of \$3,427. For fiscal 2016, rent expense for operating leases was \$77,964, including contingent rentals of \$4,263. At February 3, 2019, future minimum lease payments, including any periods covered by renewal options we are reasonably assured of exercising are:

| 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| \$121,550 | \$117,033 | \$111,045 | \$104,049 | \$100,712 | \$1,229,784 | \$1,784,173 |

At February 3, 2019, we also had lease commitments on equipment as follows:

| 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| \$951 | \$875 | \$597 | \$146 | \$67 | \$19 | \$2,655 |

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As of February 3, 2019, we have signed operating lease agreements for ten future sites which are expected to open in fiscal 2019. The landlords have 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 February 3, 2019, we have signed fourteen 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.

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Table of Contents**Note 8: Stockholders Equity*****Share repurchase program***

Our Board of Directors has approved a share repurchase program, under which the Company may repurchase shares on the open market, through privately negotiated transactions, and through trading plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The share repurchase program may be modified, suspended or discontinued at any time. As of February 3, 2019, the Company had a total share repurchase authorization of \$400,000 which expires at the end of fiscal 2020, and there was approximately \$70,137 of share repurchase authorization remaining. On April 2, 2019, our Board of Directors approved an additional \$200,000 in authorization under our existing share repurchase program.

The Company considers several factors in determining when to execute share repurchases, including among other things, current cash needs, capacity for leverage, cost of borrowings, its results of operations and the market price of its common stock. The following table provides, on a settlement date basis, the number of shares repurchased, average price paid per share and total amount paid for share repurchases for fiscal 2018, 2017 and 2016:

| | Fiscal 2018 | Fiscal 2017 | Fiscal 2016 |
|---------------------------------------|------------------------|--------------------|--------------------|
| Total number of shares repurchased | 3,080,419 | 2,636,616 | 566,756 |
| Average price paid per share | \$ 48.41 | \$ 57.62 | \$ 50.86 |
| Total cash paid for share repurchases | \$ 149,125 | \$ 151,913 | \$ 28,825 |

The Company treats shares withheld for tax purposes on behalf of our employees in connection with the vesting of performance restricted stock units as common stock repurchases because they reduce the number of shares that would have been issued upon vesting. These withheld shares of common stock are not considered common stock repurchases under our authorized common stock repurchase plan and are not included in the table above. During the fiscal year ended 2018, we withheld 16,251 shares of common stock to satisfy \$673 of employees' tax obligations.

Dividends

Our Board of Directors declared the following dividends in fiscal 2018:

| Declaration Date | Dividend per share | Record Date | Amount | Payment Date |
|-------------------------|-------------------------------|--------------------|---------------|---------------------|
| September 11, 2018 | \$ 0.15 | September 25, 2018 | \$ 5,842 | October 10, 2018 |
| December 13, 2018 | \$ 0.15 | December 26, 2018 | \$ 5,728 | January 10, 2019 |

On March 11, 2019, our Board of Directors declared a quarterly cash dividend of \$0.15 per share on each of its outstanding common shares, such dividend to be paid on April 10, 2019, to shareholders of record on March 26, 2019.

Share-based compensation

The Company maintains an equity incentive plan under which it may grant awards denominated in the Company's common stock or units of the Company's common stock, as well as cash variable compensation awards. The Company's long-term incentive compensation provides awards to executive and management personnel as well as

directors. Prior to October 2014, we issued share-based awards under our 2010 Stock Incentive Plan. Outstanding grants under this plan include fully vested performance-based options and time-based options which vest over a five-year period from the grant date. Share-based awards granted after October 2014 and beyond were issued pursuant to the terms of our 2014 Stock Incentive Plan. We may grant stock options, restricted stock or restricted stock units (RSU s) to executive and management personnel as well as directors. The maximum number of shares of common stock issuable under the 2014 Stock Incentive Plan is

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3,100,000 shares. Time-based options granted to employees generally become exercisable ratably over a three-year period from the grant date. Certain time-based options granted to executives at the IPO date vest 50% after a period of three years and 50% after a period of four years. Performance-based RSU s awarded to employees fully vest after three years, subject to the achievement of performance conditions. Time-based RSU s have various service periods not exceeding five years.

Options granted under both plans terminate on the ten-year anniversary of the grants. Stock option awards generally provide continued vesting, in the event of termination, for employees that reach age 60 or greater and have at least ten years of service or for employees that reach age 65 (retired employees). Unvested stock options, restricted stock and RSU s are generally forfeited by employees who terminate prior to vesting and prorated for retired employees.

Each share granted subject to a stock option award or time-based RSU award reduces the number of shares available under our stock incentive plans by one share. Each share granted subject to a performance RSU award reduces the number of shares available under our stock incentive plans by a range of one share if the target performance is achieved, up to a maximum of two shares for performance above target and a minimum of no shares if performance is below a minimum threshold target.

Compensation expense associated with share-based equity awards granted has been calculated as required by current accounting standards related to stock compensation. The valuation of our stock option awards has been determined using the Black-Scholes option valuation model. The Black-Scholes option valuation model uses assumptions of expected volatility, the expected dividend yield of our stock, the expected term of the awards and the risk-free interest rate, as well as an estimated fair value of our common stock. For all stock options granted after our IPO, we have obtained fair value valuation analyses prepared by an independent third-party valuation firm, and the analyses utilized the market-determined share price. Since our stock had not been publicly traded prior to our IPO, the expected volatility was based on an average of the historical volatility of certain of our competitors' stocks over the expected term of the share-based awards with the calculation placing more weight on company-specific volatilities each year thereafter. The dividend yield assumption was based on our history. The simplified method was used to estimate the expected term of share-based awards. This method was used because the Company does not have enough historical option activity to derive an expected life. The risk-free interest rate was based on the implied yield on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term.

The significant assumptions used in determining the underlying fair value of the weighted-average options granted in fiscal 2018, 2017 and 2016 were as follows:

| | 2014 Stock Incentive Plan | | |
|-----------------------------------|----------------------------------|--------------------|--------------------|
| | Fiscal 2018 | Fiscal 2017 | Fiscal 2016 |
| Volatility | 32.7% | 32.9% | 34.0% |
| Risk free interest rate | 2.73% | 2.00% | 1.29% |
| Expected dividend yield | 0.00% | 0.00% | 0.00% |
| Expected term in years | 6.0 | 6.0 | 5.9 |
| Weighted average calculated value | \$ 15.36 | \$ 20.54 | \$ 13.62 |

Compensation expense related to stock options with only service conditions (time-based) is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award or to the date on which retirement eligibility is achieved, if shorter. Compensation expense related to stock option plans was \$3,185, \$4,875, and \$3,483 during the fiscal years ended February 3, 2019, February 4, 2018, and January 29, 2017, respectively.

Compensation expense for RSU s and restricted shares is based on the market price of the shares underlying the awards on the grant date. Compensation expense for RSU s based on performance reflects the estimated

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probability that performance conditions at target or above will be met, and time-based RSU s and restricted shares are expensed ratably over the service period. We recorded compensation expense related to our RSU s and restricted shares awards of \$4,237, \$4,041, and \$2,345 during the fiscal years ended February 3, 2019, February 4, 2018, and January 29, 2017, respectively.

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

Transactions related to stock option awards during fiscal 2018 were as follows:

| | 2014 Stock Incentive Plan | | 2010 Stock Incentive Plan | |
|---------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|
| | Number | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| | of Options | | of Options | |
| Outstanding at February 4, 2018 | 1,001,403 | \$ 32.55 | 709,979 | \$ 5.88 |
| Granted | 205,646 | 41.65 | | |
| Exercised | (55,611) | 27.94 | (345,497) | 5.20 |
| Forfeited | (17,220) | 46.12 | (4,498) | 9.34 |
| Outstanding at February 3, 2019 | 1,134,218 | 34.22 | 359,984 | 6.48 |
| Exercisable at February 3, 2019 | 745,267 | \$ 27.97 | 359,984 | \$ 6.48 |

The total intrinsic value of options exercised during fiscal 2018, 2017 and 2016 was \$19,524, \$30,844, and \$50,403, respectively. The unrecognized expense related to our stock option plan totaled approximately \$1,750 as of February 3, 2019 and will be expensed over a weighted average of 1.9 years. For options outstanding at February 3, 2019, the weighted average remaining contractual life was 6.1 years and the aggregate intrinsic value was \$36,800. For options exercisable at February 3, 2019, the weighted average remaining contractual life was 5.3 years and the aggregate intrinsic value was \$34,000.

Transactions related to time-based and performance-based RSU s during fiscal 2018 were as follows:

| | Shares | Weighted Avg Grant Date Fair Value |
|--------------------------------------|-----------|------------------------------------|
| Outstanding at February 4, 2018 | 184,541 | \$ 44.96 |
| Granted | 112,574 | 46.50 |
| Change in units based on performance | 50,452 | 31.72 |
| Vested | (115,562) | 35.26 |
| Forfeited | (11,175) | 45.01 |
| Outstanding at February 3, 2019 | 220,830 | \$ 47.79 |

Fair value of our time-based and performance-based RSU s and restricted stock is based on our closing stock price on the date of grant. The total fair value of shares vested during fiscal 2018, 2017 and 2016 was approximately \$4,812, \$426 and \$360, respectively. The unrecognized expense related to our time-based and performance-based RSU s was approximately \$5,400 as of February 3, 2019 and will be expensed over a weighted average 2.4 years.

Stock option exercise activity and share unit conversion in fiscal 2018 were satisfied through the issuance of new shares.

Note 9: Employee Benefit Plans

We sponsor a plan to provide retirement benefits under the provisions of Section 401(k) of the Internal Revenue Code (the 401(k) Plan) for all employees who have completed a specified term of service. We

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provide for a guaranteed matching of 25% of employee contributions, up to a maximum of 6% of eligible employee compensation, as defined by the 401(k) Plan. We also have a discretionary contribution dependent upon attaining a specified performance target. Should we achieve the performance target, it would contribute an additional 25% of qualified employee contributions. Employees may elect to contribute up to 50% of their eligible compensation on a pretax basis. Benefits under the 401(k) Plan are limited to the assets of the 401(k) Plan. Expenses related to our contributions to the 401(k) Plan were \$692, \$1,089, \$889 for fiscal 2018, 2017 and 2016, respectively.

We offer a deferred compensation plan that permits a select group of management or highly compensated employees to defer a portion of their compensation. Under this plan, eligible employees may elect to defer up to 50% of their base salary on a pre-tax basis each plan year. Each pay period, we match 25% of the employee's contributions up to the first 6% of salary deferred. At the end of each year, if our performance target is met, we contribute an additional amount, equal to the employer match contributed each pay period. Any contributions to a participant's account vest in equal portions over a five-year period and become immediately vested upon termination of a participant's employment on or after age 65 or by reason of the participant's death or disability, and upon a change of control (as defined). We recognized \$135, \$246, and \$237 of deferred compensation expense in fiscal 2018, 2017 and 2016, respectively. The deferred compensation plan assets are invested through a rabbi trust. Assets in the rabbi trust are invested in certain mutual funds that cover an investment spectrum ranging from equities to money market instruments and are available to satisfy the claims of our creditors in the event of bankruptcy or insolvency. These mutual funds have published market prices and are reported at fair value using quoted prices available on identical assets and liabilities in active markets, representing Level One assets as defined by GAAP. As of February 3, 2019 and February 4, 2018, \$7,409 and \$7,059, respectively, of deferred compensation plan assets are included in Other assets and deferred charges and the offsetting deferred compensation plan liabilities are included in Other liabilities in the accompanying Consolidated Balance Sheets.

Note 10: Commitments and Contingencies

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

On June 30, 2017, we agreed to settle litigation related to alleged violations of the Employee Retirement Income Security Act. The settlement agreement was preliminarily approved by the court on December 7, 2018, and the court has set a hearing concerning final approval for May 9, 2019. To cover the estimated net costs of settlement, including estimated payment to any opt-in members and class attorneys, as well as related settlement administration costs, we recorded a net charge of \$2,550 (representing \$7,500 of gross settlement costs less \$4,950 of insurance recoveries) during fiscal 2017. The charge was recorded in general and administrative expenses in our Consolidated Statements of Comprehensive Income. No additional settlement liabilities or recoveries related to this litigation were recorded during fiscal 2018. The actual amount of any settlement payment could vary from our estimate and will be subject to many factors including approval by the court, the claims process and other matters typically associated with the settlement of litigation.

During fiscal 2017, three major hurricanes made landfall impacting areas where we operate our stores, which negatively impacted store revenues. During fiscal 2018, we recognized business interruption insurance recoveries of approximately \$3,075 related to the events, which are included in Other store operating expenses in the Consolidated Statements of Comprehensive Income. During fiscal 2018, we also recognized property insurance recoveries of approximately \$541, related to the events, which resulted in a net gain on disposal of fixed assets of approximately

\$180, which is included in Other store operating expenses in the Consolidated Statements of Comprehensive Income.

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We are subject to the terms of a settlement agreement with the Federal Trade Commission that requires us, on an ongoing basis, to establish, implement, and maintain a comprehensive information security program that is reasonably designed to protect the security, confidentiality, and integrity of personal information collected from or about consumers. The agreement does not require us to pay any fines or other monetary assessments and we do not believe that the terms of the agreement will have a material adverse effect on our business, operations, or financial performance.

Note 11: Earnings per share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Potential dilutive shares consist of the incremental common shares issuable upon the exercise of outstanding stock options, unvested time-based RSU s and performance RSU s to the extent performance measures were attained as of the end of the reporting period, calculated using the treasury-stock method. Potential dilutive shares are excluded from the computation of earnings per share (EPS) if their effect is anti-dilutive. Stock options for which the exercise price exceeds the average market price over the period are anti-dilutive and, accordingly, are excluded from the calculation. For fiscal 2018 and fiscal 2017, we excluded approximately 52,000 and 31,000 anti-dilutive options from the calculation of common equivalent shares.

The following table sets forth the computation of EPS, basic and diluted for the fiscal years ended:

| (in thousands, except share and per share data) | February 3, 2019 | February 4, 2018 | January 29, 2017 |
|---|-------------------------|-------------------------|-------------------------|
| Numerator: | | | |
| Net income | \$ 117,221 | \$ 120,949 | \$ 90,795 |
| Denominator: | | | |
| Weighted average number of common shares outstanding (basic) | 39,047,106 | 41,276,314 | 41,951,770 |
| Weighted average dilutive impact of equity-based awards | 928,016 | 1,306,695 | 1,336,822 |
| Weighted average number of common and common equivalent shares outstanding (dilutive) | 39,975,122 | 42,583,009 | 43,288,592 |
| Net income per share: | | | |
| Basic | \$ 3.00 | \$ 2.93 | \$ 2.16 |
| Diluted | \$ 2.93 | \$ 2.84 | \$ 2.10 |

Table of Contents**Note 12: Selected Quarterly Financial Information (unaudited)**

| | Fiscal 2018 Quarters Ended | | | |
|--|-----------------------------------|-----------------|------------------|-----------------|
| | 5/6/2018 | 8/5/2018 | 11/4/2018 | 2/3/2019 |
| Total revenues | \$ 332,190 | \$ 319,188 | \$ 282,139 | \$ 331,784 |
| Total cost of products | 57,139 | 55,556 | 48,734 | 58,834 |
| Operating income | 58,604 | 45,930 | 15,472 | 40,994 |
| Net income | 42,150 | 33,779 | 11,856 | 29,436 |
| Net income per share of common stock: | | | | |
| Basic | \$ 1.06 | \$ 0.86 | \$ 0.30 | \$ 0.77 |
| Diluted | \$ 1.04 | \$ 0.84 | \$ 0.30 | \$ 0.75 |
| Weighted average number of shares outstanding: | | | | |
| Basic | 39,695,421 | 39,355,105 | 38,892,288 | 38,245,612 |
| Diluted | 40,612,388 | 40,280,301 | 39,855,648 | 39,065,459 |
| Stores open at end of period | 112 | 117 | 118 | 121 |

| | Fiscal 2017 Quarters Ended | | | |
|--|-----------------------------------|------------------|-------------------|-----------------|
| | 4/30/2017 | 7/30/2017 | 10/29/2017 | 2/4/2018 |
| Total revenues | \$ 304,148 | \$ 280,751 | \$ 249,979 | \$ 304,913 |
| Total cost of products | 48,985 | 48,451 | 44,607 | 54,629 |
| Operating income | 64,228 | 39,163 | 19,926 | 42,455 |
| Net income | 42,796 | 30,356 | 12,157 | 35,640 |
| Net income per share of common stock: | | | | |
| Basic | \$ 1.02 | \$ 0.73 | \$ 0.30 | \$ 0.88 |
| Diluted | \$ 0.98 | \$ 0.71 | \$ 0.29 | \$ 0.85 |
| Weighted average number of shares outstanding: | | | | |
| Basic | 42,027,551 | 41,460,651 | 41,077,206 | 40,568,751 |
| Diluted | 43,522,403 | 42,830,873 | 42,250,611 | 41,699,060 |
| Stores open at end of period | 96 | 100 | 101 | 106 |

The fourth quarter of fiscal 2018 consists of 13 weeks and the fourth quarter of fiscal 2017 consists of 14 weeks.

Our revenues and operations are influenced by seasonal shifts in consumer spending. Revenues associated with spring and year-end holidays have historically been higher. Our third quarter, which encompasses the back-to-school fall season, has historically had lower revenues as compared to the other quarters.

Net income for the fourth quarter of fiscal 2017 includes a benefit to our income tax provision related to the favorable impact of the Tax Act (refer to Note 6 for further discussion of income taxes).