

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

X QUARTERLY REPORT TO SECTION 13 OR 15(d) OF THE SECURITIES
- - - - - EXCHANGE ACT FOR THE QUARTER ENDED MAY 3, 1998.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT
- - - - - OF 1934 FOR THE TRANSACTION PERIOD FROM TO .

COMMISSION FILE NUMBER: 0-25858

DAVE & BUSTER'S, INC.
(Exact Name of Registrant as Specified in Its Charter)

MISSOURI 43-1532756
(State of Incorporation) (I.R.S. Employer Identification No.)

2481 MANANA DRIVE
DALLAS, TEXAS 75220
(Address of Principal Executive Offices) (Zip Code)

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

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

The number of shares of the Registrant's common stock, \$.01 par value, outstanding as of June 9, 1998 was 13,047,850 shares.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	13 Weeks Ended	
	May 3, 1998	May 4, 1997
Food and beverage revenues	\$ 19,192	\$ 14,778
Amusement and other revenues	19,725	13,854
Total revenues	38,917	28,632
Cost of revenues	7,630	5,533
Operating payroll and benefits	10,893	7,972
Other restaurant operating expenses	10,246	7,143
General and administrative expenses	2,407	1,886
Depreciation and amortization expense	2,448	1,844
Preopening cost amortization	975	778
Total costs and expenses	34,599	25,156
Operating income	4,318	3,476
Interest (income) expense, net	(291)	197
Income before provision for income taxes	4,609	3,279
Provision for income taxes	1,743	1,278
Net income	\$ 2,866	\$ 2,001
Basic net income per share	\$ 0.22	\$ 0.18
Basic weighted average shares outstanding	13,031	10,902
Diluted net income per share	\$ 0.22	\$ 0.18
Diluted weighted averages shares outstanding	13,274	10,994

See accompanying notes to consolidated financial statements.

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

ASSETS	May 3, 1998 (unaudited)	February 1, 1998
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 10,363	\$ 14,309
Short-term investments	4,507	8,507
Inventories	6,667	6,222
Prepaid expenses	1,652	1,234
Preopening costs	4,381	3,415
Other current assets	941	2,018
	-----	-----
Total current assets	28,511	35,705
Property and equipment, net	127,283	114,060
Goodwill, net of accumulated amortization of \$1,217 and \$1,121	8,491	8,587
Other assets	987	637
	-----	-----
Total assets	\$165,272	\$158,989
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,578	\$ 4,075
Accrued liabilities	4,287	3,255
Income taxes payable	676	0
Deferred income taxes	2,102	1,967
	-----	-----
Total current liabilities	11,643	9,297
Deferred income taxes	3,598	3,530
Other liabilities	864	806
Long-term debt	12,500	12,000
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 10,000,000 authorized; none issued	0	0
Common stock, \$0.01 par value, 50,000,000 authorized; 13,047,850 and 13,019,050 shares issued and outstanding as of May 3, 1998 and February 1, 1998, respectively	130	130
Paid in capital	116,499	116,054
Retained earnings	20,038	17,172
	-----	-----
Total stockholders' equity	136,667	133,356
	-----	-----
	\$165,272	\$158,989
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Common Stock		Paid in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, February 1, 1998	13,019	\$ 130	\$ 116,054	\$ 17,172	\$ 133,356
Proceeds from exercising stock options	29	0	291	0	291
Tax benefit related to stock option exercises	0	0	154	0	154
Net income	0	0	0	2,866	2,866
Balance, May 3, 1998	<u>13,048</u>	<u>\$ 130</u>	<u>\$ 116,499</u>	<u>\$ 20,038</u>	<u>\$ 136,667</u>

See accompanying notes to consolidated financial statements.

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

	13 Weeks Ended	
	May 3, 1998	May 4, 1997
Cash flows from operating activities		
Net income	\$ 2,866	\$ 2,001
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	3,423	2,622
Provision for deferred income taxes	(1,223)	63
Changes in assets and liabilities		
Inventories	(445)	(929)
Prepaid expenses	(418)	(579)
Preopening costs	(1,941)	(1,107)
Other assets	724	205
Accounts payable	503	(25)
Accrued liabilities	1,032	150
Income taxes payable	2,102	1,199
Other liabilities	59	96
Net cash provided by operating activities	6,682	3,696
Cash flows from investing activities		
Capital expenditures	(15,573)	(5,298)
Sale of short-term investments	4,000	0
Net cash used by investing activities	(11,573)	(5,298)
Cash flows from financing activities		
Proceeds from options exercised	445	0
Borrowings under long-term debt	500	5,669
Repayments of long-term debt	0	(4,300)
Net cash provided by financing activities	945	1,369
Cash (used)	(3,946)	(233)
Beginning cash and cash equivalents	14,309	358
Ending cash and cash equivalents	\$ 10,363	\$ 125

See accompanying notes to consolidated financial statements.

DAVE & BUSTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 3, 1998

(UNAUDITED)

NOTE 1: RESULTS OF OPERATIONS

The results of operations for the interim periods reported are not necessarily indicative of results to be expected for the year. The information furnished herein reflects all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods.

NOTE 2: BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Dave & Buster's, Inc. (the "Company") and all wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. The consolidated balance sheet data presented herein for February 1, 1998 was derived from the Company's audited consolidated financial statements for the fiscal year then ended. The preparation of financial statements in accordance with generally accepted accounting principles requires the Company's management to make certain estimates and assumptions for the reporting periods covered by the financial statements. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses. Actual amounts could differ from these estimates. The primary business of the Company is the ownership and operation of restaurant/entertainment Complexes (a "Complex") under the name "Dave & Buster's" which are located in Texas, Georgia, Pennsylvania, Illinois, Florida, Maryland, California, Ohio and Colorado.

NOTE 3: EARNINGS PER COMMON SHARE

Effective December 15, 1997, the Company adopted the provisions of SFAS No. 128, "Accounting for Earnings Per Share." SFAS No. 128 requires companies to present basic earnings per share (EPS) and diluted EPS, instead of the primary and fully diluted EPS presentations that were formerly required by Accounting Principles Board Opinion No. 15, "Earnings Per Share." Basic EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. For the Company, diluted EPS includes the dilutive effect of potential stock option exercises, calculated using the treasury stock method. EPS amounts for all periods presented reflect the provisions of SFAS No. 128, including amounts presented for prior periods which have been restated to conform with SFAS No. 128.

NOTE 4: CONTINGENCIES

In April 1998, a litigation limited liability corporation owned by the creditors of Edison Brothers filed a lawsuit against the Company and related parties, seeking recovery in connection with the June 1995 spin-off and certain related transactions. The plaintiff's aggregate recovery in this lawsuit would be limited to the shortfall received by the creditors in the Edison Brothers bankruptcy.

The Company is unable to quantify any potential exposure from this lawsuit. Although no assurance can be made with respect to the results of the litigation, the Company believes that the claims asserted against the Company are without merit, and the Company intends to vigorously defend itself.

The Company is subject to certain legal proceedings in addition to the matter described above and claims that arise in the ordinary course of its business. In the opinion of management, based on discussions with and advice of legal counsel, the amount of ultimate liability with respect to all actions will not materially affect the consolidated results of operations or financial condition of the Company.

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

Results of Operations - 13 Weeks Ended May 3, 1998 Compared to 13 Weeks Ended May 4, 1997

Total revenues for the 13 weeks ended May 3, 1998 increased by 36% over the 13 weeks ended May 4, 1997. The increase in revenues was primarily attributable to the Ontario, California, Cincinnati, Ohio, and Denver, Colorado locations, which opened in the first, third and fourth quarters of fiscal 1997, respectively, and a 9% increase in comparable Complex revenues. Total revenues also increased due to the opening of the first store under the Bass licensing agreement. Total revenues for the first quarter of fiscal 1998 from the Bass agreement were \$54,000.

Cost of revenues, as a percentage of revenues, increased to 19.6% from 19.3% in the prior comparable period. The increase in cost of revenues was a result of higher costs associated with food and amusement revenues offset by lower costs associated with beverage revenues. The increase in food costs were a function of higher produce, dairy and grocery costs. The increase in amusement costs was due to higher merchandise and freight costs, while the decrease in beverage costs was primarily associated with lower draft beer and wine costs.

Operating payroll and benefits increased to 28.0% from 27.9% in the prior comparable period due to higher variable labor and benefits costs offset partially by lower fixed labor costs. The increase in variable labor is partially due to the second increment of the Federal minimum wage increase implemented in September 1997.

Other operating expenses increased to 26.3% compared to 25.0% in the prior comparable period. Other operating expenses were higher due to increased occupancy costs associated with the addition of the Ontario, California, Cincinnati, Ohio, and Denver, Colorado locations. The increase was also a function of higher restaurant supplies and advertising costs at the Complexes.

General and administrative costs increased \$521,000 over the prior comparable period as a result of increased administrative payroll and related costs for new personnel and additional costs associated with the Company's future growth plans. As a percentage of revenues, general and administrative expenses decreased to 6.2% compared to 6.6% for the comparable prior period due to increased leverage from revenues.

Depreciation and amortization expense increased \$604,000 over the prior comparable period as a result of the opening of the Ontario, California, Cincinnati, Ohio and Denver, Colorado, locations. As a

percentage of revenues, depreciation and amortization decreased to 6.3% from 6.4% for the comparable prior period.

Preopening cost amortization increased \$197,000 over the prior comparable period as a result of two additional Complex months of amortization. As a percentage of revenue, preopening costs decreased to 2.5% compared to 2.7% in the prior comparable period. The percentage decrease is attributable to the leverage from increased revenues.

The Company defers its restaurant preopening costs and amortizes them over the twelve-month period following the opening of each respective Complex. In April 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 requires entities to expense as incurred all start-up and preopening costs that are not otherwise capitalizable as long-lived assets. SOP 98-5 is effective for fiscal years beginning after December 15, 1998, although earlier adoption is encouraged. Restatement of previously issued financial statements is not permitted by SOP 98-5, and entities are not required to report the pro forma effects of the retroactive application of the new accounting standard. The Company's adoption of the expense-as-incurred accounting principle required by SOP 98-5 will involve the recognition of the cumulative effect of the change in accounting principle required by SOP 98-5 as a one-time charge against earnings, net of any related income tax effect, retroactive to the beginning of the fiscal year of adoption. Total deferred preopening costs were \$4.4 million at May 3, 1998.

As has been the case with the Company's current deferred method for accounting for preopening costs, preopening expense comparisons under the new expense-as-incurred standard will continue to vary from period to period, depending on the number and timing of Complex openings and the specific preopening expenses incurred for each Complex during each period being compared. Based on the Company's current expansion plans, the Company believes total preopening expenses for fiscal 1998 and 1999 under either accounting principle (deferred or expense-as-incurred) will likely exceed the respective amount for each immediate prior year. However, the new expense-as-incurred accounting principle required by SOP 98-5 will, by definition, cause an accelerated recognition of preopening expenses. The impact of this accelerated recognition on the Company's results of operations for any given period could be significant, depending on the number of Complexes opened during that period.

The effective tax rate for the first quarter of 1998 was 37.8% as compared to 39.0% for the comparable period last year and was the result of a lower effective state tax rate.

Liquidity and Capital Resources

Cash flows from operations increased from \$3.7 million in the first 13 weeks of fiscal 1997 to \$6.7 million in the first 13 weeks of fiscal 1998. The increase was a result of the Ontario, California, Cincinnati, Ohio and Denver, Colorado locations opened in the first, third and fourth quarters of fiscal 1997, respectively.

The Company has a senior revolving credit facility which permits borrowing up to a maximum of \$50,000,000 at a floating rate based on the London Interbank Offered Rate ("LIBOR") or, at the Company's option, the bank's prime rate plus in each case a margin based upon financial performance (8.4% at May 3, 1998). The facility, which matures in May 2000, has certain financial covenants including a minimum consolidated tangible net worth level, a maximum leverage ratio, minimum fixed charge coverage and maximum level of capital expenditures on new stores. At May 3, 1998, \$37,140,000 was available under the senior revolving credit facility.

The Company's plan is to open four large format Complexes in fiscal 1998. The first Complex opened in Utica (Suburban Detroit), Michigan during the second quarter on May 7, 1998. The Company plans to open three additional large format Complexes in Irvine, California, Rockland County, New York and Orange, California, in the second, third and fourth quarters of fiscal 1998, respectively. The Company also plans on opening a small format Complex in the fourth quarter of fiscal 1998 in Columbus, Ohio. In fiscal 1999, the Company's goal is to open four large format and two small format Complexes. The Company estimates that its capital expenditures will be approximately \$53.5 million and \$69.5 million for 1998 and 1999, respectively. The Company intends to finance this development with cash flow from operations, the proceeds received from the secondary offering completed in the third quarter of 1997 and the senior revolving credit facility.

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

Certain statements in this Form 10-Q constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Dave & Buster's, Inc. to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; competition; development and operating costs; adverse publicity; consumer trial and frequency; availability, locations and terms of sites for complex development; quality of management; business abilities and judgment of personnel; availability of qualified personnel; food, labor and employee benefit costs; changes in, or the failure to comply with, government regulations; and other risks indicated in this filing.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits
27 Financial Data Schedule
- (b) Reports on Form 8-K
No reports on Form 8-K were filed during the 13 weeks ended May 3, 1998.

SIGNATURE

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

DAVE & BUSTER'S, INC.

Dated: June 17, 1998

by /s/ David O. Corriveau

David O. Corriveau
Co-Chairman of the Board,
Co-Chief Executive
Officer and President

Dated: June 17, 1998

by: /s/ Charles Michel

Charles Michel
Vice President,
Chief Financial Officer
and Treasurer

27 Financial Data Schedule

3-MOS

FEB-01-1998

MAY-03-1998

10,363

4,507

0

0

6,667

28,511

152,369

25,086

165,272

11,643

12,500

0

0

130

136,537

165,272

38,917

38,917

7,630

34,599

0

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(291)

4,609

1,743

2,866

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2,866

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