

DOVER DOWNS GAMING & ENTERTAINMENT INC  
Form 10-Q  
November 06, 2017

**United States**  
**Securities and Exchange Commission**

Washington, D.C. 20549

**Form 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended September 30, 2017**

Commission file number 1-16791

**Dover Downs Gaming & Entertainment, Inc.**

(Exact name of registrant as specified in its charter)

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

**51-0414140**  
(I.R.S. Employer Identification No.)

**1131 North DuPont Highway, Dover, Delaware 19901**

(Address of principal executive offices)

**(302) 674-4600**

(Registrant's telephone number, including area code)

N/A

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(Former name, former address and former fiscal year, if changed since last report)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting 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 check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 27, 2017, the number of shares of each class of the registrant's common stock outstanding is as follows:

Common Stock -	18,283,009 shares
Class A Common Stock -	14,869,623 shares

**Part I Financial Information****Item 1. Financial Statements****DOVER DOWNS GAMING & ENTERTAINMENT, INC.****CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS****AND COMPREHENSIVE (LOSS) INCOME****In Thousands, Except Per Share Amounts****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Gaming	\$ 39,503	\$ 41,295	\$ 114,568	\$ 119,711
Other operating	5,591	5,815	17,979	18,340
	45,094	47,110	132,547	138,051
<b>Expenses:</b>				
Gaming	37,863	39,015	109,702	113,251
Other operating	3,856	3,895	12,543	12,594
General and administrative	1,286	1,228	3,906	3,851
Depreciation	2,096	1,959	6,128	5,799
	45,101	46,097	132,279	135,495
Operating (loss) earnings	(7)	1,013	268	2,556
Interest expense	(217)	(214)	(634)	(661)
(Loss) earnings before income taxes	(224)	799	(366)	1,895
Income tax benefit (expense)	87	(279)	77	(818)
Net (loss) earnings	(137)	520	(289)	1,077
Change in pension net actuarial loss and prior service cost, net of income taxes	18	20	79	61
Unrealized gain on available-for-sale securities, net of income taxes	4	2	5	5
Comprehensive (loss) income	\$ (115)	\$ 542	\$ (205)	\$ 1,143
<b>Net (loss) earnings per common share:</b>				
Basic	\$	\$ 0.02	\$ (0.01)	\$ 0.03
Diluted	\$	\$ 0.02	\$ (0.01)	\$ 0.03

The Notes to the Consolidated Financial Statements are an integral part of these consolidated financial statements.

## DOVER DOWNS GAMING &amp; ENTERTAINMENT, INC.

## CONSOLIDATED BALANCE SHEETS

In Thousands, Except Share and Per Share Amounts

(Unaudited)

	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash	\$ 10,590	\$ 11,677
Accounts receivable	2,778	3,507
Due from State of Delaware	7,739	7,285
Inventories	2,074	1,910
Prepaid expenses and other	3,562	2,365
Receivable from Dover Motorsports, Inc.		7
Income taxes receivable	172	221
Total current assets	26,915	26,972
Property and equipment, net	136,137	140,714
Other assets	587	594
Deferred income taxes	2,190	2,020
Total assets	\$ 165,829	\$ 170,300
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,201	\$ 3,749
Purses due horsemen	7,764	7,649
Accrued liabilities	8,990	9,732
Payable to Dover Motorsports, Inc.	27	
Deferred revenue	334	361
Revolving line of credit	21,500	25,250
Total current liabilities	42,816	46,741
Liability for pension benefits	7,387	7,897
Total liabilities	50,203	54,638
Commitments and contingencies (see Notes to the Consolidated Financial Statements)		
Stockholders' equity:		
Preferred stock, \$0.10 par value; 1,000,000 shares authorized; shares issued and outstanding: none		
Common stock, \$0.10 par value; 74,000,000 shares authorized; shares issued and outstanding: 18,283,009 and 18,144,992, respectively	1,828	1,814
Class A common stock, \$0.10 par value; 50,000,000 shares authorized; shares issued and outstanding: 14,869,623 and 14,869,623, respectively	1,487	1,487
Additional paid-in capital	5,824	5,669
Retained earnings	110,999	111,288
Accumulated other comprehensive loss	(4,512)	(4,596)
Total stockholders' equity	115,626	115,662
Total liabilities and stockholders' equity	\$ 165,829	\$ 170,300

The Notes to the Consolidated Financial Statements are an integral part of these consolidated financial statements.



## DOVER DOWNS GAMING &amp; ENTERTAINMENT, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
<b>Operating activities:</b>		
Net (loss) earnings	\$ (289)	\$ 1,077
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation	6,128	5,799
Amortization of credit facility origination fees	42	77
Stock-based compensation	243	252
Deferred income taxes	(227)	54
Changes in assets and liabilities:		
Accounts receivable	729	902
Due from State of Delaware	(454)	(421)
Inventories	(164)	(238)
Prepaid expenses and other	(1,185)	(820)
Income taxes receivable/payable	50	194
Accounts payable	665	788
Purses due horsemen	115	937
Accrued liabilities	(742)	(839)
Payable to/receivable from Dover Motorsports, Inc.	34	(88)
Deferred revenue	(27)	(34)
Liability for pension benefits	(379)	(294)
Net cash provided by operating activities	4,539	7,346
<b>Investing activities:</b>		
Capital expenditures	(1,764)	(2,469)
Purchase of available-for-sale securities	(47)	(47)
Proceeds from sale of available-for-sale securities	44	44
Net cash used in investing activities	(1,767)	(2,472)
<b>Financing activities:</b>		
Borrowings from revolving line of credit	58,670	37,880
Repayments of revolving line of credit	(62,420)	(41,880)
Repurchase of common stock	(74)	(66)
Credit facility fees	(35)	(40)
Net cash used in financing activities	(3,859)	(4,106)
Net (decrease) increase in cash	(1,087)	768
Cash, beginning of period	11,677	10,496
Cash, end of period	\$ 10,590	\$ 11,264
<b>Supplemental information:</b>		
Interest paid	\$ 590	\$ 592
Income tax payments, net of refunds received	\$ 101	\$ 569
Change in accounts payable for capital expenditures	\$ (213)	\$ 282

The Notes to the Consolidated Financial Statements are an integral part of these consolidated financial statements.





**DOVER DOWNS GAMING & ENTERTAINMENT, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 Basis of Presentation**

References in this document to we, us and our mean Dover Downs Gaming & Entertainment, Inc. and/or its wholly owned subsidiaries, as appropriate.

The accompanying consolidated financial statements have been prepared in compliance with Rule 10-01 of Regulation S-X and U.S. generally accepted accounting principles, and accordingly do not include all of the information and disclosures required for audited financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our latest Annual Report on Form 10-K filed on March 1, 2017. In the opinion of management, these consolidated financial statements include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. Operating results for the three and nine-month periods ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

**NOTE 2 - Business Operations**

We are a premier gaming and entertainment resort destination whose operations consist of:

- Dover Downs Casino a 165,000-square foot casino complex featuring popular table games, including craps, roulette and card games such as blackjack, Spanish 21, baccarat, 3-card and pai gow poker, the latest in slot machine offerings, multi-player electronic table games, a poker room, a Race & Sports Book operation, the Dover Downs Fire & Ice Lounge, the Festival Buffet, Doc Magrogan's Oyster House, Frankie's Italian restaurant, as well as several bars, restaurants and six retail outlets;
- Dover Downs Hotel and Conference Center a 500 room AAA Four Diamond hotel with a fine dining restaurant, full-service spa/salon, conference, banquet, ballroom and concert hall facilities; and
- Dover Downs Raceway a harness racing track with pari-mutuel wagering on live and simulcast horse races.

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All of our gaming operations are located at our entertainment complex in Dover, the capital of the State of Delaware.

Dover Downs, Inc. is authorized to conduct video lottery, sports wagering, table game and internet gaming operations as one of three Licensed Agents under the Delaware State Lottery Code. Licensing, administration and control of gaming operations in Delaware is under the Delaware State Lottery Office and Delaware's Department of Safety and Homeland Security, Division of Gaming Enforcement.

Our license from the Delaware Harness Racing Commission (the Commission) to hold harness race meetings on our premises and to offer pari-mutuel wagering on live and simulcast horse races must be renewed on an annual basis. In order to maintain our gaming license, we are required to maintain our harness horse racing license. We have received an annual license from the Commission for the past 48 consecutive years and management believes that our relationship with the Commission remains good.

Due to the nature of our business activities, we are subject to various federal, state and local regulations. As part of our license arrangements, we are subject to various taxes and fees which are subject to change by the Delaware legislature.

In recent years, the mid-Atlantic region has experienced an unprecedented expansion in gaming venues and gaming offerings. This has had a significant adverse effect on our visitation numbers, our revenues and our profitability. Management has estimated that approximately 26% of our gaming win comes from Maryland patrons and approximately 61% of our Capital Club® member gaming win comes from out of state patrons.

For the past several years, we have been engaged with the Delaware legislature, seeking to change the cost sharing structure that exists between video lottery agents, video lottery vendors, horsemen and the State, all in an effort to make the Delaware gaming industry more competitive in the regional marketplace. Several bills have been introduced to implement one or more of the recommendations of the gaming industry and the legislatively created Lottery & Gaming Study Commission, but not enacted. Without legislative relief, we may be unable to refinance or extend the maturity of our credit facility on favorable terms or may default on our obligations, we may be unable to allocate sufficient resources to marketing and promotions in order to compete effectively in the regional marketplace, we may be unable to allocate sufficient resources to maintain our facility, and we may be required to take other actions in order to manage expenses - especially with respect to operations that have operated at a loss, such as table games. Such actions could adversely affect our business, financial condition, operating results and cash flow.

### **NOTE 3 - Summary of Significant Accounting Policies**

*Property and equipment* Property and equipment is stated at cost. Depreciation is provided using the straight-line method over the asset's estimated useful life. Accumulated depreciation was \$142,804,000 and \$137,791,000 as of September 30, 2017 and December 31, 2016, respectively.

We perform reviews for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its fair value. Generally, fair value will be determined using valuation techniques such as the present value of future cash flows.

*Point loyalty program* We currently have a point loyalty program for our customers which allows them to earn points based on the volume of their gaming activity. All reward points earned by customers are expensed in the period they are earned. The estimated amount of points redeemable for cash is recorded as a reduction of gaming revenue and the estimated amount of points redeemable for services and merchandise is recorded as gaming expense. In determining the amount of the liability, which was \$1,726,000 and \$1,652,000, respectively, at September 30, 2017 and December 31, 2016, we estimate a redemption rate, a cost of rewards to be offered and the mix of cash, goods and services for which reward points will be redeemed. We use historical data to estimate those amounts.

*Revenue and expense recognition* Gaming revenues represent (i) the net win from slot machine, table games, internet gaming and sports wagering and (ii) commissions from pari-mutuel wagering. Other operating revenues consist of hotel rooms revenue, food and beverage sales and other miscellaneous income. Revenues do not include the retail amount of hotel rooms, food and beverage and other miscellaneous goods and services provided without charge to customers as promotional items of \$5,116,000 and \$13,961,000, and \$4,998,000 and \$14,152,000 for the three and nine-month periods ended September 30, 2017 and 2016, respectively. The estimated direct cost of providing these items has been charged to the casino through interdepartmental allocations and is included in gaming expenses in the consolidated statements of (loss) earnings.

For the casino operations, the difference between the amount wagered by bettors and the amount paid out to bettors is referred to as the win. The win is included in the amount recorded in our consolidated financial statements as gaming revenue. The Delaware State Lottery Office sweeps the win from the casino operations, collects the State's share of the win and the amount due to the vendors under contract with the State who provide the slot machines and associated computer systems, collects the amount allocable to purses for harness horse racing and remits the remainder to us as our commission for acting as a Licensed Agent. Gaming expenses include the amounts collected by the State (i) for the State's share of the win, (ii) for remittance to the providers of the slot machines and associated computer systems, and (iii) for harness horse racing purses. We recognize revenues from sports wagering commissions when the event occurs. We recognize revenues from pari-mutuel commissions earned from live

harness horse racing and importing of simulcast signals from other race tracks when the race occurs. Revenues from hotel rooms, food and beverage sales and other miscellaneous income are recognized at the time the service is provided. Amounts received in advance for hotel rooms, convention bookings and advance ticket sales are recorded as deferred revenue until the services are provided to the customer, at which point revenue is recognized.

*Advertising costs* Advertising costs are charged to operations as incurred. Advertising expenses were \$600,000 and \$1,567,000, and \$642,000 and \$1,673,000 for the three and nine-month periods ended September 30, 2017 and 2016, respectively.

*Net (loss) earnings per common share* Nonvested share-based payment awards that include rights to dividends or dividend equivalents, whether paid or unpaid, are considered participating securities, and the two-class method of computing basic and diluted net (loss) earnings per common share ( EPS ) is applied for all periods presented. The following table sets forth the computation of EPS (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net (loss) earnings per common share basic and diluted:				
Net (loss) earnings	\$ (137)	\$ 520	\$ (289)	\$ 1,077
Allocation to nonvested restricted stock awards		13		27
Net (loss) earnings available to common stockholders	\$ (137)	\$ 507	\$ (289)	\$ 1,050
Weighted-average shares outstanding basic and diluted	32,322	32,202	32,321	32,201
Net (loss) earnings per common share basic and diluted	\$	\$ 0.02	\$ (0.01)	\$ 0.03

There were no options outstanding and we paid no dividends during the three and nine-month periods ended September 30, 2017 or 2016.

*Accounting for stock-based compensation* We recorded total stock-based compensation expense for our restricted stock awards of \$57,000 and \$243,000, and \$75,000 and \$252,000 as general and administrative expenses for the three and nine-month periods ended September 30, 2017 and 2016, respectively. We recorded income tax benefit (expense) of \$24,000 and \$27,000, and \$31,000 and (\$16,000) for the three and nine-month periods ended September 30, 2017 and 2016, respectively, related to vesting of our restricted stock awards.

*Recent accounting pronouncements* In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-09, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States of America. The

FASB has recently issued several amendments to the standard, including clarification on accounting for and identifying performance obligations. The standard can be applied using the full retrospective method or retrospectively with the cumulative effect initially applying the guidance recognized at the date of initial application. We are still evaluating both available adoption methods.

The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We will adopt this standard effective January 1, 2018.

We are currently analyzing the effect of the new standard across all of our revenue streams to evaluate its impact. We expect the most significant effect on our consolidated financial statements will be related to the accounting for our point loyalty program and casino promotional allowances, which will impact the classification of revenues between gaming and other operating. As a result of applying the new standard, we expect a significant decrease in gaming revenues and a similar increase in other operating revenues. However, due to the complexity and nature of the gaming industry, the quantitative effects of these changes have not yet been determined and are still being analyzed.

Under our point loyalty program, customers earn points based on the volume of their gaming activity. All reward points earned by customers are currently expensed in the period they are earned. The estimated amount of points redeemable for cash is recorded as a reduction of gaming revenue and the estimated cost of points redeemable for services and merchandise is recorded as gaming expense. We currently determine our liability for unredeemed points based on the estimated costs of services or merchandise to be provided and estimated redemption rates. We expect the liability for unredeemed points to increase upon adoption of the new standard since the value of the unredeemed points will be determined based on the estimated standalone selling price of the points earned. Under the new standard, points awarded under our point loyalty program are considered a material right given to the customers based on their gaming play and the promise to provide points to customers will need to be accounted for as a separate performance obligation. The new standard will require us to allocate the revenues associated with the customers' gaming activity between gaming revenue and the value of the points and to measure the liability based on the estimated standalone selling price of the points earned after factoring in the likelihood of redemption. As a result, we expect that gaming revenues will be reduced with a corresponding increase to other operating revenues or our point liability. The revenue associated with the points earned will be recognized in the period in which they are redeemed.

Currently, other operating revenues do not include the retail amount of hotel rooms, food and beverage and other miscellaneous goods and services provided without charge to customers as promotional items. The estimated direct cost of providing these items is charged to the casino through interdepartmental allocations and is included in gaming marketing expenses. The new standard may require the complimentary items to be considered a separate performance obligation, which would require us to allocate a portion of revenue from a gaming transaction to other operating revenue based on the standalone selling prices of the promotional items provided. For example, when a casino customer is given a complimentary room, we may be required to allocate a portion of the casino revenue earned from the customer to rooms revenue based on the standalone selling price of the room.

We continue to analyze the impact of these changes on our results of operations and, at this time, we are unable to determine the quantitative impact of the new standard on our consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)*. ASU 2017-07 provides guidance on the presentation of the service cost component and the other components of net period pension cost in the consolidated statements of (loss) earnings. The standard is effective for annual and interim reporting periods beginning after December 15, 2017 and requires retrospective adoption. The ASU is not expected to have a material impact on our consolidated financial statements.

#### **NOTE 4 Credit Facility**

On July 25 2017, we modified our credit agreement with our bank group. The credit facility was modified to: extend the maturity date to September 30, 2018, and adjust the maximum borrowing limit from \$35,000,000 to \$32,500,000 as of March 31, 2018 and through the date of maturity. Interest is based upon LIBOR plus a margin that varies between 150 and 350 basis points (200 basis points at September 30, 2017) depending on the leverage ratio. The credit facility is secured by a mortgage on and security interest in all real and personal property owned by our wholly owned subsidiary Dover Downs, Inc. The credit facility contains certain covenants including maximum ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the leverage ratio), and a minimum fixed charge coverage ratio. Material adverse changes in our results of operations could impact our ability to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause and prohibits the payment of dividends. The credit facility provides for seasonal funding needs, capital improvements and other general corporate purposes. At September 30, 2017, there was \$21,500,000 outstanding at an interest rate of 3.23% and \$13,500,000 was available pursuant to the facility. Additionally, we were in compliance with all terms of the facility at September 30, 2017 and we expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods through September 30, 2018, the expiration date of the facility.

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The credit facility is classified as a current liability as of September 30, 2017 in our consolidated balance sheets as the facility expires on September 30, 2018. We will seek to refinance or extend the maturity of this obligation prior to its expiration date; however, there is no assurance that we will be able to execute this refinancing or extension or, if we are able to refinance or extend this obligation, that the terms of such refinancing or extension



would be as favorable as the terms of our existing credit facility. These factors raise substantial doubt about our ability to continue as a going concern. The accompanying financial statements have been prepared assuming that we will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

#### NOTE 5 Pension Plans

We maintain a non-contributory, tax qualified defined benefit pension plan that has been frozen since July 2011. All of our full time employees were eligible to participate in this qualified pension plan. Benefits provided by our qualified pension plan were based on years of service and employees' remuneration over their term of employment. Compensation earned by employees up to July 31, 2011 is used for purposes of calculating benefits under our pension plan with no future benefit accruals after this date. We also maintain a non-qualified, non-contributory defined benefit pension plan, the excess plan, for certain employees that has been frozen since July 2011. This excess plan provided benefits that would otherwise be provided under the qualified pension plan but for maximum benefit and compensation limits applicable under federal tax law. The cost associated with the excess plan is determined using the same actuarial methods and assumptions as those used for our qualified pension plan. The assets for the excess plan aggregate \$333,000 and \$304,000 as of September 30, 2017 and December 31, 2016, respectively, and are recorded in other assets in our consolidated balance sheets (see NOTE 7 Fair Value Measurements).

The components of net periodic pension benefit for our defined benefit pension plans are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest cost	\$ 230,000	\$ 217,000	\$ 642,000	\$ 651,000
Expected return on plan assets	(289,000)	(284,000)	(891,000)	(854,000)
Recognized net actuarial loss	29,000	34,000	131,000	102,000
	\$ (30,000)	\$ (33,000)	\$ (118,000)	\$ (101,000)

We contributed \$118,000 and \$229,000, and \$70,000 and \$160,000 to our defined benefit pension plans during the three and nine-month periods ended September 30, 2017 and 2016, respectively. We contributed an additional \$61,000 to our defined benefit pension plans in October 2017. We do not expect to make any further contributions to our defined benefit pension plans during the remainder of 2017.

We also maintain a non-elective, non-qualified supplemental executive retirement plan ( SERP ) which provides deferred compensation to certain highly compensated employees that approximates the value of benefits lost by the freezing of the pension plan which are not offset by our enhanced matching contribution in our 401(k) plan. The SERP is a discretionary defined contribution plan and contributions made to the SERP in any given year are not guaranteed and will be at the sole discretion of our Compensation and Stock Incentive Committee. During the three and nine-month periods ended September 30, 2017 and 2016, we recorded expenses of \$30,000 and \$90,000, and \$20,000 and \$66,000, respectively, related to the SERP. During the three and nine-month periods ended September 30, 2017 and 2016, we contributed \$0 and \$122,000, and \$0 and \$99,000 to the plan, respectively. The liability for SERP pension benefits was \$90,000 and \$122,000 as of September 30, 2017 and December 31, 2016, respectively.

We maintain a defined contribution 401(k) plan which permits participation by substantially all employees. Our matching contributions to the 401(k) plan were \$207,000 and \$639,000, and \$216,000 and \$601,000 for the three and nine-month periods ended September 30, 2017 and 2016, respectively.



**NOTE 6 Stockholders Equity**

Changes in the components of stockholders equity are as follows (in thousands, except per share amounts):

	Common Stock	Class A Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss
<b>Balance at December 31, 2016</b>	\$ 1,814	\$ 1,487	\$ 5,669	\$ 111,288	\$ (4,596)
Net loss				(289)	
Issuance of nonvested stock awards, net of forfeitures	21		(21)		
Stock-based compensation			243		
Change in net actuarial loss and prior service cost, net of income tax expense of \$52					79
Unrealized gain on available-for-sale securities, net of income tax expense of \$4					5
Repurchase and retirement of common stock	(7)		(67)		
<b>Balance at September 30, 2017</b>	\$ 1,828	\$ 1,487	\$ 5,824	\$ 110,999	\$ (4,512)

As of September 30, 2017 and December 31, 2016, accumulated other comprehensive loss consists of the following:

	September 30, 2017	December 31, 2016
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of \$3,028,000 and \$3,080,000, respectively	\$ (4,545,000)	\$ (4,624,000)
Accumulated unrealized gain on available- for-sale securities, net of income tax expense of \$23,000 and \$19,000, respectively	33,000	28,000
Accumulated other comprehensive loss	\$ (4,512,000)	\$ (4,596,000)

On January 23, 2013, our Board of Directors suspended the quarterly dividend. In addition, our credit facility prohibits the payment of dividends. See NOTE 4 Credit Facility.

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during the first nine months of 2017 or 2016. At September 30, 2017, we had remaining repurchase authority of 1,653,333 shares. At present we are not permitted to make such purchases under our credit facility.

We have a stock incentive plan which provides for the grant of up to 2,000,000 shares of common stock to our officers and key employees through stock options and/or awards valued in whole or in part by reference to our common stock, such as nonvested restricted stock awards. Under the plan, nonvested restricted stock vests an aggregate of twenty percent each year beginning on the second anniversary date of the grant. The aggregate market value of the nonvested restricted stock at the date of issuance is being amortized on a straight-line basis over the six-year

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period. We granted 208,500 and 220,500 stock awards under this plan during the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, there were 1,120,448 shares available for granting options or stock awards.

During the nine months ended September 30, 2017 and 2016, we purchased and retired 70,483 and 67,555 shares of our outstanding common stock for \$74,000 and \$66,000, respectively. These purchases were made from employees in connection with the vesting of restricted stock awards under our stock incentive plan and were not pursuant to the aforementioned repurchase authorization. Since the vesting of a restricted stock award is a taxable event to our employees for which income tax withholding is required, the plan allows employees to surrender to us

some of the shares that would otherwise have vested in satisfaction of their tax liability. The surrender of these shares is treated by us as a purchase of the shares.

**NOTE 7 Fair Value Measurements**

Our financial instruments are classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table summarizes the valuation of our financial instrument pricing levels as of September 30, 2017 and December 31, 2016:

	Total	Level 1	Level 2	Level 3
<b>September 30, 2017</b>				
Available-for-sale securities	\$ 333,000	\$ 333,000	\$	\$
<b>December 31, 2016</b>				
Available-for-sale securities	\$ 304,000	\$ 304,000	\$	\$

Our investments in available-for-sale securities consist of mutual funds. These investments are included in other assets on our consolidated balance sheets.

The carrying amounts of other financial instruments reported in our consolidated balance sheets for current assets and current liabilities approximates their fair values because of the short maturity of these instruments.

At September 30, 2017 and December 31, 2016, there was \$21,500,000 and \$25,250,000, respectively, outstanding under our revolving credit agreement. The borrowings under our revolving credit agreement bear interest at the variable rate described in NOTE 4 Credit Facility and therefore we believe approximate fair value.

**NOTE 8 - Related Party Transactions**

During the three and nine-month periods ended September 30, 2017 and 2016, we allocated costs of \$457,000 and \$1,426,000, and \$487,000 and \$1,482,000, respectively to Dover Motorsports, Inc. ( DVD ), a company related through common ownership, for certain administrative and operating services, including leased space. DVD allocated certain administrative and operating service costs of \$24,000 and \$164,000, and \$24,000 and \$135,000, respectively, to us for the three and nine-month periods ended September 30, 2017 and 2016. The allocations were based on an analysis of each company's share of the costs. In connection with DVD's 2017 and 2016 NASCAR event weekends at Dover International Speedway, we provided certain services, primarily catering, for which DVD was invoiced \$14,000 and \$474,000, and \$71,000 and \$497,000 during the three and nine-month periods ended September 30, 2017 and 2016, respectively. Additionally, DVD invoiced us \$56,000 and \$163,000, and \$25,000 and \$116,000 during the three and nine-month periods ended September 30, 2017 and 2016, respectively, for tickets, their commission for suite catering and other services to the NASCAR events. As of September 30, 2017 and December 31, 2016, respectively, our consolidated balance sheets included a \$27,000 payable to and \$7,000 receivable from DVD for the aforementioned items. These items were settled in October and January of 2017, respectively. The net costs incurred by each company for these services are not necessarily indicative of the costs that would have been incurred if the companies had been unrelated entities and/or had otherwise independently managed these functions; however, management believes that these costs are reasonable.

Prior to our spin-off from DVD in 2002, both companies shared certain real property in Dover, Delaware. At the time of the spin-off, some of this real property was transferred to us to ensure that the real property holdings of each company was aligned with its past uses and future business needs. During our harness racing season, we have historically used the 5/8-mile harness racing track that is located on DVD's property and is on the inside of its one-mile motorsports superspeedway. In order to continue this historic use, DVD granted a perpetual easement to the harness track to us at the time of the spin-off. This perpetual easement allows us to have exclusive use of the harness track during the period beginning November 1 of each year and ending April 30 of the following year, together with set up and tear down rights for the two weeks before and after such period. The easement requires that we maintain the harness track but does not require the payment of any rent.

Various easements and agreements relative to access, utilities and parking have also been entered into between us and DVD relative to our respective Dover, Delaware facilities. DVD pays rent to us for the lease of its principal executive office space. We also allow DVD to use our indoor grandstands in connection with DVD's two annual motorsports weekends. We do not assess rent for this nominal use and may discontinue the use at our discretion.

Henry B. Tippie, Chairman of our Board of Directors, controls in excess of fifty percent of our voting power. Mr. Tippie's voting control emanates from his direct and indirect holdings of common stock and Class A common stock, from his status as trustee of the RMT Trust, our largest stockholder, and from certain shares as to which he has voting rights pursuant to a voting agreement with R. Randall Rollins, one of our directors. This means that Mr. Tippie has the ability to determine the outcome of our election of directors and to determine the outcome of many significant corporate transactions, many of which only require the approval of a majority of our voting power.

Patrick J. Bagley, Timothy R. Horne, Denis McGlynn, Jeffrey W. Rollins, R. Randall Rollins, Richard K. Struthers and Henry B. Tippie are all Directors of ours and DVD. Denis McGlynn is the President and Chief Executive Officer of both companies, Klaus M. Belohoubek is the Senior Vice President - General Counsel and Secretary of both companies and Timothy R. Horne is the Senior Vice President - Finance and Chief Financial Officer of both companies. Mr. Tippie controls in excess of fifty percent of the voting power of DVD.

#### **NOTE 9 Commitments and Contingencies**

We are a party to ordinary routine litigation incidental to our business. Management does not believe that the resolution of any of these matters is likely to have a material adverse effect on our results of operations, financial position or cash flows.

#### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion is based upon and should be read together with the consolidated financial statements and notes thereto included elsewhere in this document.

Dover Downs Gaming & Entertainment, Inc. is a premier gaming and entertainment resort destination whose operations consist of:

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- Dover Downs Casino a 165,000-square foot casino complex featuring popular table games, including craps, roulette and card games such as blackjack, Spanish 21, baccarat, 3-card and pai gow poker, the latest in slot machine offerings, multi-player electronic table games, a poker room, a Race & Sports Book operation, the Dover Downs Fire & Ice Lounge, the Festival Buffet, Doc Magrogan's Oyster House, Frankie's Italian restaurant, as well as several bars, restaurants and six retail outlets;
- Dover Downs Hotel and Conference Center a 500 room AAA Four Diamond hotel with a fine dining restaurant, full-service spa/salon, conference, banquet, ballroom and concert hall facilities; and
- Dover Downs Raceway a harness racing track with pari-mutuel wagering on live and simulcast horse races.



All of our gaming operations are located at our entertainment complex in Dover, the capital of the State of Delaware.

Approximately 88% of our revenue is gaming revenue. Several factors contribute to the win for any gaming company, including, but not limited to:

- Proximity to major population bases,
- Competition in the market,
- The quantity and types of slot machines and table games available,
- The quality of the physical property,
- Other amenities offered on site,
- Customer service levels,
- Marketing programs, and
- General economic conditions.

Our entertainment complex is located in Dover, the capital of the State of Delaware. We draw patrons from several major metropolitan areas. Philadelphia, Baltimore and Washington, D.C. are all within a two hour drive. According to the 2010 United States Census, approximately 36.8 million people live within 150 miles of our complex. There are significant barriers to entry related to the gaming business in Delaware. By law, currently only the three existing horse racing facilities in the State are allowed to have a video lottery gaming license. In recent years, additional gaming venues have opened in Maryland and Pennsylvania. These venues are having a significant adverse effect on our visitation numbers, our revenues and our profitability. Our property is similar to properties found in the country's largest gaming markets. Our luxury hotel is the only casino-hotel in Delaware, providing a strong marketing tool, especially to higher-end players. We also utilize our recently enhanced slot marketing system to allow for more efficient marketing programs and the highest levels of customer service. Our facility offers approximately 41,500 square feet of multi-use event space – the most space of any hotel in Delaware.

Because all of our gaming operations are located at one facility, we face the risk of increased competition from the legalization of new or additional gaming venues. We have therefore focused on creating a premier gaming and entertainment resort destination and building and rewarding customer loyalty through innovative marketing efforts, unparalleled customer service and a variety of amenities.

## **Results of Operations**

*Three Months Ended September 30, 2017 vs. Three Months Ended September 30, 2016*

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Gaming revenues decreased by \$1,792,000, or 4.3%, to \$39,503,000 in the third quarter of 2017 primarily as a result of lower slot machine play and a lower table game hold percentage. We believe that our revenues continue to be negatively impacted from the overall increased competition in regional gaming markets.

Other operating revenues were \$5,591,000 in the third quarter of 2017 as compared to \$5,815,000 in the third quarter of 2016. Rooms revenue decreased slightly to \$1,457,000 in the third quarter of 2017 from \$1,494,000 in the third quarter of 2016. Food and beverage revenues decreased slightly to \$3,002,000 in the third quarter of 2017 from \$3,034,000 in the third quarter of 2016. Lower concert revenues in the third quarter of 2017 as compared to the same period in the prior year contributed to the decrease in other operating revenues. Other operating revenues do not include the retail amount of promotional allowances which are provided to customers on a complimentary basis of \$5,116,000 and \$4,998,000 in the third quarter of 2017 and 2016, respectively.

Gaming expenses decreased by \$1,152,000, or 3.0%, as a result of the lower gaming revenues.

Other operating expenses decreased slightly to \$3,856,000 in the third quarter of 2017 from \$3,895,000 in the third quarter of 2016, as a result of the lower other operating revenues.

General and administrative expenses increased slightly to \$1,286,000 in the third quarter of 2017 as compared to \$1,228,000 in the third quarter of 2016.

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Depreciation expense increased to \$2,096,000 in the third quarter of 2017 from \$1,959,000 in the third quarter of 2016 as a result of capital spending in 2016 and the first nine months of 2017.

Interest expense remained consistent between the third quarters of 2017 and 2016. Lower outstanding borrowings in the third quarter of 2017 were partially offset by slightly higher rates.

Our effective income tax rate was (38.8%) in the third quarter of 2017 as compared to 34.9% in the third quarter of 2016.

### *Nine Months Ended September 30, 2017 vs. Nine Months Ended September 30, 2016*

Gaming revenues decreased by \$5,143,000, or 4.3%, to \$114,568,000 in the first nine months of 2017 primarily as a result of lower slot machine play, a lower table game hold percentage and a decline in horse racing commissions. We believe that our revenues continue to be negatively impacted from the overall increased competition in regional gaming markets.

Other operating revenues were \$17,979,000 in the first nine months of 2017 as compared to \$18,340,000 in the first nine months of 2016. Rooms revenue decreased slightly to \$4,354,000 in the first nine months of 2017 from \$4,442,000 in the first nine months of 2016. Food and beverage revenues decreased to \$10,225,000 in the first nine months of 2017 from \$10,423,000 in the first nine months of 2016 due primarily to lower banquet sales. Lower concert revenues in the first nine months of 2017 as compared to the same period in the prior year contributed to the decrease in other operating revenues. Other operating revenues do not include the retail amount of promotional allowances which are provided to customers on a complimentary basis of \$13,961,000 and \$14,152,000 in the first nine months of 2017 and 2016, respectively.

Gaming expenses decreased by \$3,549,000, or 3.1%, primarily as a result of the lower gaming revenues.

Other operating expenses remained consistent at \$12,543,000 in the first nine months of 2017 as compared to \$12,594,000 in the first nine months of 2016. While our fixed costs remained consistent, our food costs increased slightly.

General and administrative expenses remained consistent at \$3,906,000 in the first nine months of 2017 as compared to \$3,851,000 in the first nine months of 2016.

Depreciation expense increased to \$6,128,000 in the first nine months of 2017 from \$5,799,000 in the first nine months of 2016 as a result of capital spending in 2016 and the first nine months of 2017.

Interest expense decreased by \$27,000 primarily due to lower outstanding borrowings in the first nine months of 2017, partially offset by slightly higher rates.

Our effective income tax rate was (21.0%) in the first nine months of 2017 as compared to 43.2% in the first nine months of 2016. The rates were impacted by the non-deductible portion of the restricted stock awards that vested during the first quarter of 2017 and 2016, and by a federal income tax credit for payroll taxes incurred on customer tips paid to our employees. Additionally, the 2017 rate was impacted by a larger extent due to the pre-tax loss.

### **Liquidity and Capital Resources**

Net cash provided by operating activities was \$4,539,000 in the first nine months of 2017 compared to \$7,346,000 in the first nine months of 2016. The decrease was primarily due to the lower earnings before depreciation and the timing of payments to vendors and harness racing purses.

Net cash used in investing activities was \$1,767,000 in the first nine months of 2017 compared to \$2,472,000 in the first nine months of 2016 and was primarily related to capital improvements in both periods. Capital expenditures in the first nine months of 2017 and 2016 related primarily to facility and equipment and information systems upgrades.

Net cash used in financing activities was \$3,859,000 in the first nine months of 2017 compared to \$4,106,000 in the first nine months of 2016. During the first nine months of 2017, we had net repayments of \$3,750,000 on our credit facility compared to \$4,000,000 during the first nine months of 2016. We repurchased and retired \$74,000 and \$66,000 of our outstanding common stock during the first nine months of 2017 and 2016, respectively. These purchases were made from employees in connection with the vesting of restricted stock awards under our stock incentive plan. As a result of amending our credit agreement in July 2017 and September 2016, we paid \$35,000 and \$40,000 in bank fees, respectively.

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during the first nine months of 2017 or 2016. At September 30, 2017, we had remaining repurchase authority of 1,653,333 shares. At present we are not permitted to make such purchases under our credit facility.

Based on current business conditions, we expect to make capital expenditures of approximately \$700,000 during the remainder of 2017. Additionally, we contributed \$61,000 to our defined benefit pension plans in October 2017. We do not expect to make any further contributions to our defined benefit pension plans during the remainder of 2017.

On July 25, 2017, we modified our credit agreement with our bank group. The credit facility was modified to: extend the maturity date to September 30, 2018, and adjust the maximum borrowing limit from \$35,000,000 to \$32,500,000 as of March 31, 2018 and through the date of maturity. Interest is based upon LIBOR plus a margin that varies between 150 and 350 basis points (200 basis points at September 30, 2017) depending on the leverage ratio. The credit facility is secured by a mortgage on and security interest in all real and personal property owned by our wholly owned subsidiary Dover Downs, Inc. The credit facility contains certain covenants including maximum ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the leverage ratio), and a minimum fixed charge coverage ratio. Material adverse changes in our results of operations could impact our ability to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause and prohibits the payment of dividends. The credit facility provides for seasonal funding needs, capital improvements and other general corporate purposes. At September 30, 2017, there was \$21,500,000 outstanding at an interest rate of 3.23% and \$13,500,000 was available pursuant to the facility. Additionally, we were in compliance with all terms of the facility at September 30, 2017 and we expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods through September 30, 2018, the expiration date of the facility.

The credit facility is classified as a current liability as of September 30, 2017 in our consolidated balance sheets as the facility expires on September 30, 2018. We will seek to refinance or extend the maturity of this obligation prior to its expiration date; however, there is no assurance that we will be able to execute this refinancing or extension or, if we are able to refinance or extend this obligation, that the terms of such refinancing or extension would be as favorable as the terms of our existing credit facility. These factors raise substantial doubt about our ability to continue as a going concern. The accompanying financial statements have been prepared assuming that we will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

While we believe that our net cash flows from operating activities and funds available from our credit facility will be sufficient to provide for our working capital needs and capital spending requirements for the foreseeable future, we will need to refinance or extend the maturity of our outstanding credit facility prior to its expiration on September 30, 2018.

In recent years, the mid-Atlantic region has experienced an unprecedented expansion in gaming venues and gaming offerings. These new venues including several in Maryland have had a significant adverse effect on our visitation numbers, our revenues and our profitability. Management has estimated that approximately 26% of our gaming win comes from Maryland patrons and approximately 61% of our Capital

Club® member gaming win comes from out-of-state patrons.

The Delaware legislature has worked with the gaming industry in recent years to increase the State's gaming offerings, but it has done so while steadily increasing the State's share of the industry's gaming revenues and adding to various costs that the industry incurs to do business. In July 2008, the State's share of our gaming revenues was increased. In May 2009, an additional and significant increase in the State's share of our gaming revenues was legislated in connection with the reintroduction of limited sports betting in the State. This was the fifth increase in the State's share of gaming revenues. In January 2010, the State authorized table games, but imposed a license fee and a high tax rate on table game revenues. During this period, our revenues declined and our ability to compete with the growing number of competitors in the mid-Atlantic region was impeded. In recognition of the State's high gaming tax burden and its effect on the industry, legislators have attempted several times since 2011 to reduce this tax burden in an effort to stabilize the industry, preserve jobs and protect the State's revenue stream.

In June 2012, the State enacted the Delaware Gaming Competitiveness Act of 2012 (the "Act"), under which Delaware's video lottery agents are authorized to offer, through their websites, internet versions of their table games (including poker and bingo) and video lottery offerings. All games remain under the control and operation of the Delaware Lottery. Revenues from the internet versions of table games and video lottery games are distributed generally pursuant to the formula currently applicable to those games physically located within our casino, with the exception that internet service provider costs are deducted first, and the Delaware Lottery retains the first \$3.75 million of state-wide net proceeds. We began offering internet gaming in 2013; to date operating results from internet gaming have not been material. Internet lottery games are, at least initially, offered solely to persons located within the State of Delaware. This territorial limitation would not apply to gaming pursuant to an interstate compact, such as the one announced in February 2014 between Delaware and Nevada. Internet gaming participation is limited to persons who meet the age requirements for equivalent non-internet games. The Act also eliminated the gaming license fee and restructured the table game license fee currently paid by video lottery agents to incentivize agents to make capital expenditures, spend on marketing and promotions, and make debt service payments.

In 2013, the State enacted a bond and capital improvements bill which, among other things, created a Lottery & Gaming Study Commission responsible for examining the competitive marketplace confronting the Delaware gaming industry, including the business performance and business plans of existing lottery agents, the marketing efforts and investments made by Delaware video lottery agents, and the division of revenue from the video lottery, sports lottery, table games and internet gaming. In 2014, the Delaware legislature approved, on a permanent basis, the Commission's recommendation for the State to share certain vendor costs that the three Delaware video lottery agents pay associated with slot machines.

The Commission reconvened in September 2014 to consider previous and make further recommendations relative to the gaming industry. The Commission's findings and recommendations were released in January 2015 and included: increasing the State's share of vendor costs associated with slot machines; eliminating the annual table game license fee; reducing the State's share of table game win; and providing each video lottery agent a credit of up to 5% of video lottery proceeds to be used for marketing expenditures and a credit of up to 5% of video lottery proceeds to be used for capital expenditures. Delaware State Senate Bill 30 was introduced in January 2015 in order to implement the Commission's recommendations, but it was not released from the Senate Finance Committee for action. In January 2016, Senate Bill 183 was introduced to phase in some of the Commission's recommendations over the next four years and to authorize internet sports betting in Delaware, but it was not acted upon prior to the end of the 2016 legislative session. No gaming legislation was introduced in 2017 and the 2017 legislative session has ended.

Without legislative relief, we may be unable to refinance or extend the maturity of our credit facility on favorable terms or may default on our obligations, we may be unable to allocate sufficient resources to marketing and promotions in order to compete effectively in the regional marketplace, we may be unable to allocate sufficient resources to maintain our facility, and we may be required to take other actions in order to manage expenses - especially with respect to operations that have operated at a loss, such as table games. Such actions could adversely affect our business, financial condition, operating results and cash flow.

**Contractual Obligations**

At September 30, 2017, we had the following contractual obligations:

	Total	2017	Payments Due by Period				Thereafter
			2018	2019	2020	2021	
Revolving line of credit(a)	\$ 21,500,000	\$	\$ 21,500,000	\$	\$	\$	\$
Estimated interest payments on revolving line of credit(b)	695,000	174,000	521,000				
Defined benefit pension plan contributions	61,000	61,000					
	\$ 22,256,000	\$ 235,000	\$ 22,021,000	\$	\$	\$	\$

(a) Our current credit facility expires on September 30, 2018.

(b) The future interest payments on our revolving credit agreement were estimated using the current outstanding principal as of September 30, 2017 and current interest rates through the expiration date.

**Related Party Transactions**

See NOTE 8 Related Party Transactions to our consolidated financial statements included elsewhere in this document for a full description of related party transactions.

**Critical Accounting Policies**

For a summary of our critical accounting policies and the means by which we develop estimates thereon, see Part II - Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations in our 2016 Annual Report on Form 10-K. There have been no material changes to our critical accounting policies from those included in our 2016 Annual Report on Form 10-K.

**Recent Accounting Pronouncements**

See NOTE 3 Summary of Significant Accounting Policies to our consolidated financial statements included elsewhere in this document for a full description of recent accounting pronouncements that affect us.



**Factors That May Affect Operating Results; Forward-Looking Statements**

This report and the documents incorporated by reference may contain forward-looking statements. In Item 1A of this report, we disclose the important factors that could cause our actual results to differ from our expectations.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

We have established disclosure controls and procedures to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of September 30, 2017, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information we are required to disclose in the

reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

*Changes in Internal Control Over Financial Reporting*

There have been no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2017 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

**Part II Other Information**

**Item 1. Legal Proceedings**

We are a party to ordinary routine litigation incidental to our business. Management does not believe that the resolution of any of these matters is likely to have a material adverse effect on our results of operations, financial condition or cash flows.

**Item 1A. Risk Factors**

In addition to historical information, this report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, relating to our financial condition, profitability, liquidity, resources, business outlook, possible acquisitions, market forces, corporate strategies, consumer preferences, contractual commitments, legal matters, capital requirements and other matters. Documents incorporated by reference into this report may also contain forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. To comply with the terms of the safe harbor, we note that a variety of factors could cause our actual results and experience to differ substantially from the anticipated results or other expectations expressed in our forward-looking statements. When words and expressions such as: believes, expects, anticipates, estimates, plans, intends, objectives, aims, projects, forecasts, possible, seeks, may, could, should, might, likely or similar words or expressions are used, as well as our view, there can be no assurance or there is no way to anticipate with certainty, forward-looking statements may be involved.

In the section that follows below, in cautionary statements made elsewhere in this report, and in other filings we have made with the SEC, we list important factors that could cause our actual results to differ from our expectations. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors described below and other factors set forth in or incorporated by reference in this report.

These factors and cautionary statements apply to all future forward-looking statements we make. Many of these factors are beyond our ability to control or predict. Do not put undue reliance on forward-looking statements or project any future results based on such statements or on present or prior earnings levels.

Additional information concerning these, or other factors, which could cause the actual results to differ materially from those in our forward-looking statements is contained from time to time in our other SEC filings. Copies of those filings are available from us and/or the SEC.

*We Have a Significant Amount of Indebtedness*

As of September 30, 2017, we had total outstanding debt of \$21,500,000 under our credit facility. The credit facility is classified as a current liability as of September 30, 2017 in our consolidated balance sheets as the facility expires on September 30, 2018. We will seek to refinance or extend the maturity of this obligation prior to its expiration date; however, there is no assurance that we will be able to execute this refinancing or extension or, if we are able to refinance or extend this obligation, that the terms of such refinancing or extension would be as favorable as the terms of our existing credit facility. These factors raise substantial doubt about our ability to continue as a

going concern. This indebtedness and any future increases in our outstanding borrowings or decreases in our results of operations could:

- make it more difficult for us to satisfy our debt obligations;
- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- increase our costs or create difficulties in refinancing or replacing our outstanding obligations;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, dividends and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- subject us to the risks that interest rates and our interest expense will increase; and
- place us at a competitive disadvantage compared to competitors that have less relative debt.

In addition, our credit facility contains financial ratios that we are required to meet and other restrictive covenants that, among other things, limit or restrict our ability to borrow additional funds, make acquisitions, create liens on our properties and make investments. Our ability to meet these financial ratios and covenants can be affected by events beyond our control, and there can be no assurance that we will meet them. If there were an event of default under our credit facility, the lenders could elect to declare all amounts outstanding to be immediately due and payable.

In recent years, additional gaming venues have had a significant adverse effect on our visitation numbers, our revenues and our profitability.

*Our Gaming Activities Compete Directly With Other Gaming Facilities And Other Entertainment Businesses*

We compete in local and regional markets with casinos, horse tracks and racinos, off-track betting parlors, state run lotteries, internet gambling and other forms of gaming. In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including shopping, collegiate and professional athletic events, television and movies, concerts and travel. Many of our gaming competitors are in jurisdictions with a closer proximity to large population bases and with a lower tax burden. As gambling opportunities in the region continue to proliferate, there can be no assurance that we will maintain our state or regional market share or be able to compete effectively with our competitors and this could adversely affect our business, financial condition and overall profitability.

The introduction or expansion of gaming in neighboring jurisdictions, particularly Maryland, Virginia, West Virginia, Washington, D.C., Pennsylvania or New Jersey, the proliferation of internet gaming or the legalization of additional gaming venues in Delaware, could have a material adverse effect on our cash flows and results of operations. Delaware is surrounded by jurisdictions which permit slot machines and table games, such as Pennsylvania, New Jersey, Maryland and West Virginia.

In recent years, the mid-Atlantic region has experienced an unprecedented expansion in gaming venues and gaming offerings and many analysts believe that the market is showing signs of saturation, in part due to the fact that new gaming venues often result in a substantial loss of business to existing locations. This has had a significant adverse effect on our visitation numbers, our revenues and our profitability. Management has estimated that approximately 26% of our gaming win comes from Maryland patrons and approximately 61% of our Capital Club® member gaming win comes from out of state patrons.

All states in our geographic region have state-run lotteries. State run lotteries are no longer prohibited by federal law from offering lottery products or other gaming opportunities over the internet or through mobile applications if permitted by state law.

Several states have passed legislation authorizing internet gaming and other states are pursuing or exploring the legalization of internet gaming in various forms from fantasy sports to state run lotteries to privately run casino games, including online poker. States are aggressively seeking new revenue streams through gaming.

*All Of Our Facilities Are In One Location*

Our gaming facilities are located adjacent to one another at a single location in Dover, Delaware. Any prolonged disruption of operations at these facilities due to damage or destruction, inclement weather, natural disaster, work stoppages or other reasons could adversely affect our financial condition and results of operations. We maintain property and business interruption insurance to protect against certain types of disruption, but there can be no assurance that the proceeds of such insurance would be adequate to repair or rebuild our facilities or to otherwise compensate us for lost profits.

*The Revocation, Suspension Or Modification Of Our Gaming Licenses Would Adversely Affect Our Gaming Business*

Licensing, administration and control of gaming operations in Delaware is under the Delaware State Lottery Office and Delaware's Department of Safety and Homeland Security, Division of Gaming Enforcement. Our gaming license has no expiration date and does not need to be renewed annually. However, to maintain our gaming license, we must remain licensed for harness horse racing by the Delaware Harness Racing Commission and conduct at least 80 live race days each racing season, subject to the availability of harness race horses. Our license from the Racing Commission must be renewed on an annual basis. The Racing Commission has broad discretion to reject any application for a license or suspend or revoke a license once it is issued. The Director of the Delaware State Lottery Office has broad discretion to revoke, suspend or modify the terms of our gaming license. Any modification or termination of existing licensing regulations or any revocation, suspension or modification of our licenses could adversely affect our business, financial condition and overall profitability.

*Our Gaming Activities Are Subject To Extensive Government Regulation And Any Additional Government Regulation Or Taxation Of Gaming Activities Could Substantially Reduce Our Revenue Or Profit*

We believe that the prospect of significant additional tax revenue is one of the primary reasons why jurisdictions have legalized gaming. As a result, gaming operators are typically subject to significant taxes and fees in addition to normal federal and state corporate income taxes. These taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations and the State's share of our gaming win has been increased several times. In addition, any material increase in taxes or fees, or the adoption of additional taxes or fees, may have a material adverse effect on our future financial results.

Slot machine gaming, table games, sports betting, internet gaming, harness horse racing and pari-mutuel wagering are subject to extensive government regulation. Delaware law regulates the win we are entitled to retain and the percentage of commission we are entitled to receive from our gaming revenues, which comprises a significant portion of our overall revenues. The State granted us a license to conduct our gaming operations and a license to conduct harness horse races and pari-mutuel wagering. The laws under which these licenses are granted could be modified or repealed at any time and we could be required to terminate our gaming operations. If we are required to terminate our gaming operations or if the amount of the commission we receive from the State for conducting our gaming operations is decreased, our business operations and overall profitability would be significantly impaired.

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The Delaware legislature has worked with the gaming industry in recent years to increase the State's gaming offerings, but it has done so while steadily increasing the State's share of the industry's gaming revenues and adding to various costs that the industry incurs to do business. In July 2008, the State's share of our gaming revenues was increased. In May 2009, an additional and significant increase in the State's share of our gaming revenues was legislated in connection with the reintroduction of limited sports betting in the State. This was the fifth increase in the State's share of gaming revenues. In January 2010, the State authorized table games, but imposed a license fee and a high tax rate on table game revenues. During this period, our revenues declined and our ability to compete with the growing number of competitors in the mid-Atlantic region was impeded. In recognition of the State's high

gaming tax burden and its effect on the industry, legislators have attempted several times since 2011 to reduce this tax burden in an effort to stabilize the industry, preserve jobs and protect the State's revenue stream.

In June 2012, the State enacted the Delaware Gaming Competitiveness Act of 2012 (the Act), under which Delaware's video lottery agents are authorized to offer, through their websites, internet versions of their table games (including poker and bingo) and video lottery offerings. There have been discussions in Congress to regulate various forms of internet gaming and it is possible that new federal laws may preempt state laws relative to the regulation or taxation of internet gaming. Internet gaming may even be proscribed entirely by federal law much as sports betting is proscribed by federal law in all but four states.

In July 2013, the Delaware legislature created a Lottery & Gaming Study Commission responsible for examining the competitive marketplace confronting the Delaware gaming industry, including the business performance and business plans of existing lottery agents, the marketing efforts and investments made by Delaware video lottery agents, and the division of revenue from the video lottery, sports lottery, table games and internet gaming. The Commission's findings and recommendations were released in March 2014 and included: the State sharing certain vendor costs that the three Delaware video lottery agents currently pay associated with slot machines; reducing the State's share of table game win; and eliminating the annual table game license fee. On July 1, 2014, the legislature only enacted a vendor cost sharing recommendation and asked the Commission to reconvene to consider previous and make further recommendations relative to the gaming industry. The Commission's findings and recommendations were released in January 2015 and included: increasing the State's share of vendor costs associated with slot machines; eliminating the annual table game license fee; reducing the State's share of table game win; and providing each video lottery agent a credit of up to 5% of video lottery proceeds to be used for marketing expenditures and a credit of up to 5% of video lottery proceeds to be used for capital expenditures. Delaware State Senate Bill 30 was introduced in January 2015 in order to implement the Commission's recommendations, but it was not released from the Senate Finance Committee for action. In January 2016, Senate Bill 183 was introduced to phase in some of the Commission's recommendations over the next four years and to authorize internet sports betting in Delaware, but it was not acted upon prior to the end of the 2016 legislative session. No gaming legislation was introduced in 2017 and the 2017 legislative session has ended.

Without legislative relief, we may be unable to refinance or extend the maturity of our credit facility on favorable terms or may default on our obligations, we may be unable to allocate sufficient resources to marketing and promotions in order to compete effectively in the regional marketplace, we may be unable to allocate sufficient resources to maintain our facility, and we may be required to take other actions in order to manage expenses - especially with respect to operations that have operated at a loss, such as table games. Such actions could adversely affect our business, financial condition, operating results and cash flow.

We are subject to various federal, state and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Laws and regulations governing the use and development of real estate may delay or complicate any improvements we choose to make and/or increase the costs of any improvements or our costs of operating.

If it is determined that damage to persons or property or contamination of the environment has been caused or exacerbated by the operation or conduct of our business or by pollutants, substances, contaminants or wastes used, generated or disposed of by us, or if pollutants, substances, contaminants or wastes are found on our property, we may be held liable for such damage and may be required to pay the cost of investigation and/or remediation of such contamination or any related damage.

Laws and regulations are always subject to change, can be interpreted differently in the future, and new laws and regulations may be enacted which could adversely affect the tax, regulatory, operational or other aspects of our gaming operations. Furthermore, noncompliance with one or more of these laws and regulations could result in the imposition of substantial penalties against us or adversely affect our gaming license.





*We Do Not Own Or Lease Our Slot Machines And Related Technology*

We do not own or lease the slot machines or computer systems used by the State in connection with our video lottery gaming operations. The Lottery Director enters into contracts directly with the providers of the slot machines and computer systems and we are not a party to those negotiations. The State purchases or leases all equipment and the Lottery Director licenses all technology providers and we share in the expense. Similarly, but at no expense to us, the Lottery Director contracts directly with service providers for internet gaming. Our operations could be disrupted if a licensed technology provider violates its agreement with the State or ceases to be licensed for any reason. Such an event would be outside of our control and could adversely affect our gaming revenues.

*Due to Our Concentrated Stock Ownership, Stockholders May Have No Effective Voice In Our Management*

We have elected to be treated as a controlled corporation as defined by New York Stock Exchange Rule 303A. We are a controlled corporation because a single person, Henry B. Tippie, the Chairman of our Board of Directors, controls in excess of fifty percent of our voting power. This means that he has the ability to determine the outcome of the election of directors at our annual meetings and to determine the outcome of many significant corporate transactions, many of which only require the approval of a majority of our voting power. Such a concentration of voting power could also have the effect of delaying or preventing a third party from acquiring us at a premium. In addition, as a controlled corporation, we are not required to comply with certain New York Stock Exchange rules.

*Our Success Depends on the Availability and Performance of Key Personnel*

Our continued success depends upon the availability and performance of our senior management team which possesses unique and extensive industry knowledge and experience. Our inability to retain and attract key employees in the future could have a negative effect on our operations and business plans.

We undertake no obligation to publicly update or revise any forward-looking statements as a result of future developments, events or conditions. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ significantly from those forecast in any forward-looking statements. Given these risks and uncertainties, stockholders should not overly rely or attach undue weight to our forward-looking statements as an indication of our actual future results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during the first nine months of 2017. At September 30, 2017, we had remaining repurchase authority of 1,653,333 shares. At present we are not permitted to make such purchases under our credit facility.

**Item 3.**      **Defaults Upon Senior Securities**

None.

**Item 4.**      **Mine Safety Disclosures**

Not applicable.

**Item 5.**      **Other Information**

None.

**Item 6.**        **Exhibits**

31.1        Certification of Chief Executive Officer pursuant to Rule 13a-14(a)

31.2        Certification of Chief Financial Officer pursuant to Rule 13a-14(a)

32.1        Certification of Chief Executive Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2        Certification of Chief Financial Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101        The following materials from the Dover Downs Gaming & Entertainment, Inc. quarterly report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income for the three and nine months ended September 30, 2017 and 2016; (ii) Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016; (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016; and (iv) Notes to the Consolidated Financial Statements.

**Signatures**

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.

DATED:                      November 6, 2017

Dover Downs Gaming & Entertainment, Inc.  
Registrant

/s/ Denis McGlynn  
Denis McGlynn  
*President, Chief Executive Officer and Director*  
(Principal Executive Officer)

/s/ Timothy R. Horne  
Timothy R. Horne

*Senior Vice President-Finance,  
Treasurer, Chief Financial Officer and Director  
(Principal Financial and Accounting Officer)*