DOVER DOWNS GAMING & ENTERTAINMENT INC
Form 10-Q
November 03, 2008

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, 2008

Commission file number 1-16791

Dover Downs Gaming & Entertainment, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**51-0414140**

(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

1131 North DuPont Highway, Dover, Delaware 19901

51-0414140

(Address of principal executive offices)

(302) 674-4600

(Registrant s telephone number, including area code)

N/A

(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 x No o

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

As of October 31, 2008, the number of shares of each class of the registrant s common stock outstanding is as follows:

Common Stock -	15,209,544 shares
Class A Common Stock -	16,603,173 shares

Part I Financial Information

Item 1. Financial Statements

DOVER DOWNS GAMING & ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

AND COMPREHENSIVE EARNINGS

In Thousands, Except Per Share Amounts

(Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues:				
Gaming	$ 58,576	$ 59,865	$ 169,219	$ 170,140
Other operating	5,353	4,701	14,470	12,925
	63,929	64,566	183,689	183,065
Expenses:				
Gaming	45,733	43,636	129,587	124,779
Other operating	4,281	4,027	11,762	11,308
General and administrative	1,572	1,539	4,932	4,643
Depreciation	2,885	2,056	7,745	5,533
	54,471	51,258	154,026	146,263
Operating earnings	9,458	13,308	29,663	36,802
Interest expense	975	724	2,541	1,699
Earnings before income taxes	8,483	12,584	27,122	35,103
Income taxes	3,487	5,149	11,107	14,383
Net earnings	4,996	7,435	16,015	20,720
Amortization of net actuarial loss and prior service cost included in net periodic pension benefit cost, net of income taxes	2		8	
Unrealized loss on available-for-sale securities, net of income taxes	(6)		(7)	
Comprehensive earnings	$ 4,992	$ 7,435	$ 16,016	$ 20,720
Net earnings per common share:				
Basic	$ 0.16	$ 0.23	$ 0.51	$ 0.64
Diluted	$ 0.16	$ 0.23	$ 0.51	$ 0.63

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

DOVER DOWNS GAMING & ENTERTAINMENT, INC.

CONSOLIDATED BALANCE SHEETS

In Thousands, Except Share and Per Share Amounts

(Unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash	$ 18,740	$ 22,456
Accounts receivable	3,167	4,560
Due from State of Delaware	12,556	10,530
Inventories	2,142	1,858
Prepaid expenses and other	2,854	2,251
Deferred income taxes	1,166	1,227
Total current assets	40,625	42,882
Property and equipment, net	206,145	182,298
Other assets	898	
Total assets	$ 247,668	$ 225,180
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 9,060	$ 13,382
Purses due horsemen	11,426	9,689
Accrued liabilities	10,184	11,940
Payable to Dover Motorsports, Inc.	7	18
Income taxes payable	50	341
Deferred revenue	380	98
Total current liabilities	31,107	35,468
Revolving line of credit	108,075	92,425
Liability for pension benefits	2,567	2,510
Deferred income taxes	4,960	5,178
Total liabilities	146,709	135,581
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: 14,809,544 and 14,737,821, respectively	1,481	1,474
Class A common stock, $0.10 par value; 50,000,000 shares authorized; shares issued and outstanding: 17,003,173 and 17,003,173, respectively	1,700	1,700
Additional paid-in capital	697	63
Retained earnings	97,358	86,640
Accumulated other comprehensive loss	(277)	(278)
Total stockholders equity	100,959	89,599
Total liabilities and stockholders equity	$ 247,668	$ 225,180

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

DOVER DOWNS GAMING & ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Operating activities:		
Net earnings	$ 16,015	$ 20,720
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	7,745	5,533
Amortization of credit facility origination fees	30	26
Stock-based compensation	762	671
Deferred income taxes	(156)	(148)
Changes in assets and liabilities:		
Accounts receivable	1,393	1,121
Due from State of Delaware	(2,026)	(1,856)
Inventories	(284)	5
Prepaid expenses and other	(1,446)	(1,037)
Accounts payable	464	(691)
Purses due horsemen	1,737	2,857
Accrued liabilities	(1,756)	(1,282)
Payable to/receivable from Dover Motorsports, Inc.	(11)	(26)
Income taxes payable/prepaid income taxes	(291)	197
Deferred revenue	282	154
Other liabilities	71	(73)
Net cash provided by operating activities	22,529	26,171
Investing activities:		
Capital expenditures	(36,377)	(40,470)
Purchase of available-for-sale securities	(100)	
Net cash used in investing activities	(36,477)	(40,470)
Financing activities:		
Borrowings from revolving line of credit	145,900	130,180
Repayments of revolving line of credit	(130,250)	(113,780)
Dividends paid	(4,769)	(4,408)
Repurchase of common stock	(1,040)	(119)
Proceeds from stock options exercised	366	1,069
Excess tax benefit on stock awards	25	63
Net cash provided by financing activities	10,232	13,005
Net decrease in cash	(3,716)	(1,294)
Cash, beginning of period	22,456	20,020
Cash, end of period	$ 18,740	$ 18,726
Supplemental information:		
Interest paid	$ 2,639	$ 1,588
Income taxes paid	$ 11,531	$ 14,270
Change in accounts payable for capital expenditures	$ 4,785	$ (4,086)

The Notes to the Consolidated Financial Statements are an integral part of these consolidated 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 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 7, 2008. In the opinion of management, these consolidated 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, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

NOTE 2 - Business Operations

We are a diversified gaming and entertainment company whose operations consist of Dover Downs Casino a 165,000 square-foot video lottery casino complex featuring the latest in slot machine offerings, including multi-player electronic table games with virtual dealers; the Dover Downs Hotel and Conference Center a 500 room AAA Four Diamond hotel with conference, banquet, fine dining, ballroom, concert hall and spa facilities; and Dover Downs Raceway a harness racing track with pari-mutuel wagering on live and simulcast horse races. Our entertainment complex is located in Dover, the capital of the State of Delaware.

On July 10, 2008, our Phase VI casino expansion, The Colonnade, was partially opened to the public with more than 500 slot machines, Doc Magrogan s Oyster House, Sweet Perks Too and the Dover Downs Fire & Ice Lounge debuting. Two more restaurants, Public House and Marabella s, and four retail outlets opened in late September 2008. The expansion, which is now complete, added approximately 68,000 square-feet of space bringing our video lottery casino complex to 165,000 square-feet housing approximately 3,120 slot machines.

Dover Downs Gaming & Entertainment, Inc. is a public holding company that has two wholly owned subsidiaries: Dover Downs, Inc. and Dover Downs Management Corp. Dover Downs, Inc. was incorporated in 1967 and began motorsports and harness racing operations in 1969. In June of 1994, legislation authorizing video lottery operations in the State of Delaware (the State) was adopted. Our video lottery (slots) casino operations began on December 29, 1995. As a result of several restructurings, Dover Downs, Inc. became a wholly owned subsidiary of Dover Motorsports, Inc. (formerly known as Dover Downs Entertainment, Inc.) (DVD), and became the operating entity for all of DVD s gaming operations.

Dover Downs Gaming & Entertainment, Inc. was incorporated in the State in December of 2001 as a wholly owned subsidiary of DVD. Effective March 31, 2002, DVD completed a tax-free spin-off of its gaming operations by contributing 100% of the issued and outstanding common stock of Dover Downs, Inc. to Dover Downs Gaming & Entertainment, Inc., and subsequently distributing 100% of our issued and outstanding common stock to DVD stockholders. Immediately following the spin-off, Dover Downs Gaming & Entertainment, Inc. became an independent public company.

Dover Downs, Inc. is authorized to conduct video lottery operations as one of three Licensed Agents under the Delaware State Lottery Code. Pursuant to Delaware s Horse Racing Redevelopment Act, enacted in 1994, the Delaware State Lottery Office administers and controls the operation of the video lottery.

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 license to conduct video lottery operations, we are required to maintain our harness horse racing license. We have received an annual license from the Commission for the past 39 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.

NOTE 3 - Summary of Significant Accounting Policies

Basis of consolidation The consolidated financial statements include the accounts of Dover Downs Gaming & Entertainment, Inc. and its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated.

Investments Investments, which consist of mutual funds, are classified as available-for-sale and reported at fair-value in our consolidated balance sheets. Changes in fair value are reported in other comprehensive income (loss). See NOTE 6 Stockholders Equity and NOTE 7 Financial Instruments for further discussion.

Property and equipment Property and equipment is stated at cost. Depreciation is provided for financial reporting purposes using the straight-line method. Accumulated depreciation was $61,650,000 and $54,191,000 as of September 30, 2008 and December 31, 2007, 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. No such events or changes in circumstances have occurred to date. 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.

Interest capitalization Interest is capitalized in connection with the construction of major facilities. The capitalized interest is amortized over the estimated useful life of the asset to which it relates. During the three and nine-month periods ended September 30, 2008, we incurred $1,010,000 and $3,108,000 of interest cost, of which $35,000 and $567,000 was capitalized, respectively. During the three and nine-month periods ended September 30, 2007, we incurred $1,149,000 and $3,025,000 of interest cost, of which $425,000 and $1,326,000 was capitalized, respectively.

Income taxes Deferred income taxes are provided on all differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements based upon enacted statutory tax rates in effect at the balance sheet date. As of September 30, 2008, tax years after 2004 remain open to examination by the major taxing jurisdictions to which we are subject.

Point loyalty program We currently have a point loyalty program for our video lottery customers which allows them to earn points based on the volume of their video lottery 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 $1,866,000 and $1,932,000, respectively, at September 30, 2008 and December 31, 2007, 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 video lottery (slot) machine wins and losses 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 $4,965,000 and $13,787,000, and $4,225,000 and $11,460,000 for the three and nine-month periods ended September 30, 2008 and 2007, 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 earnings.

For the video lottery operations, which account for approximately 90% of revenues for all periods presented, 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 video lottery operations, collects the State s share of the win and the amount due to the vendors under contract with the State who provide the video lottery (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 video lottery (slot) machines and associated computer systems, and (iii) for harness horse racing purses. 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.

Net earnings per common share Weighted average shares used in computing basic and diluted net earnings per common share (EPS) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Basic EPS	31,443,000	32,351,000	31,434,000	32,331,000
Effect of dilutive securities	119,000	370,000	171,000	387,000
Diluted EPS	31,562,000	32,721,000	31,605,000	32,718,000

Dilutive securities include stock options and nonvested stock awards.

For the three and nine-month periods ended September 30, 2008, options to purchase 259,000 and 86,000 shares of common stock, respectively, were outstanding but not included in the computation of diluted EPS because they would have been anti-dilutive. There were no anti-dilutive securities excluded from the calculation of diluted EPS for the three or nine-month periods ended September 30, 2007.

Accounting for stock-based compensation We recorded total stock-based compensation expense for our nonvested restricted stock awards and stock options of $235,000 and $762,000, and $217,000 and $671,000 as general and administrative expenses for the three and nine-month periods ended September 30, 2008 and 2007, respectively. We recorded income tax benefits of $80,000 and $240,000, and $58,000 and $175,000 for the three and nine-month periods ended September 30, 2008 and 2007, respectively, related to our nonvested restricted stock awards.

Use of estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent accounting pronouncements In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. Statement No. 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, Statement No. 157 does not require any new fair value measurements. Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, for financial assets and liabilities that are measured at fair value on a recurring basis. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of Statement No. 157 s fair value measurement requirements for non-financial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis to fiscal years beginning after November 15, 2008. Non-recurring non-financial assets and liabilities for which we have not applied the provisions of Statement No. 157 include our long-lived assets measured at fair value under the provisions of FASB Statement No. 144, *Accounting for the*

Impairment or Disposal of Long-Lived Assets. The impact of adoption of Statement No. 157 for financial assets and liabilities is discussed in NOTE 7 Financial Instruments. We do not expect the adoption of Statement No. 157 for non-recurring non-financial assets and liabilities to have a significant impact on our consolidated financial statements.

NOTE 4 Credit Facility

We have a credit facility with Wilmington Trust Company that expires on April 17, 2012. At September 30, 2008, the maximum borrowing limit under the facility was $125,000,000 which reduces to $100,000,000 on January 1, 2010, to $85,000,000 on January 1, 2011 and to $75,000,000 on January 1, 2012. Interest is based, at our option, upon LIBOR plus a margin that varies between 75 and 125 basis points (95 basis points at September 30, 2008) depending on the ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the leverage ratio) or the base rate (the greater of the prime rate or the federal funds rate plus 0.5%) less a margin that varies between 50 and 100 basis points (75 basis points at September 30, 2008) depending on the leverage ratio. The credit facility has minimum net worth, interest coverage and maximum leverage requirements. Material adverse changes in our results of operations could impact our ability to satisfy these requirements. The facility is for seasonal funding needs, capital improvements (including our hotel and casino expansions) and other general corporate purposes. At September 30, 2008, we were in compliance with all terms of the facility and there was $108,075,000 outstanding at a weighted average interest rate of 3.95%. At September 30, 2008, $16,925,000 was available pursuant to the facility.

NOTE 5 Pension Plans

We maintain a non-contributory, tax qualified defined benefit pension plan. All of our full time employees are eligible to participate in this qualified pension plan. Benefits provided by our qualified pension plan are based on years of service and employees remuneration over their term of employment. We also maintain a non-qualified, non-contributory defined benefit pension plan for certain employees. This excess plan provides 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 components of net periodic pension cost are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Service cost	$ 317,000	$ 299,000	$ 960,000	$ 914,000
Interest cost	143,000	122,000	441,000	372,000
Expected return on plan assets	(149,000)	(126,000)	(452,000)	(376,000)
Recognized net actuarial loss	1,000	2,000	6,000	7,000
Amortization of prior service cost	2,000	2,000	7,000	7,000
	$ 314,000	$ 299,000	$ 962,000	$ 924,000

We contributed $200,000 and $1,000,000 to our pension plans during the three and nine-month periods ended September 30, 2008, respectively. We contributed $300,000 and $1,000,000 to our pension plans during the three and nine-month periods ended September 30, 2007, respectively. We expect to contribute between $1,000,000 and $1,250,000 to our plans for the year ended December 31, 2008.

NOTE 6 Stockholders Equity

Changes in the components of stockholders equity are as follows:

	Common Stock	Class A Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss
Balance at December 31, 2007	$ 1,474,000	$ 1,700,000	$ 63,000	$ 86,640,000	$ (278,000)
Net earnings				16,015,000	
Dividends paid, $0.15 per share				(4,769,000)	
Proceeds from stock options exercised	6,000		360,000		
Issuance of nonvested stock awards, net of forfeitures	12,000		(12,000)		
Stock-based compensation			762,000		
Excess tax benefit on stock awards			25,000		
Amortization of prior service costs and unrealized losses on pension plans, net of income tax expense of $6,000					8,000
Unrealized loss on available-for-sale securities, net of income tax benefit of $5,000					(7,000)
Repurchase and retirement of common stock	(11,000)		(501,000)	(528,000)	
Balance at September 30, 2008	$ 1,481,000	$ 1,700,000	$ 697,000	$ 97,358,000	$ (277,000)

On October 29, 2008, our Board of Directors declared a quarterly cash dividend on both classes of common stock of $.05 per share. The dividend is payable on December 10, 2008 to stockholders of record at the close of business on November 10, 2008.

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 three months ended September 30, 2008. During the nine months ended September 30, 2008, we purchased and retired 98,500 shares of our outstanding common stock pursuant to this plan at an average purchase price of $9.09 per share, not including nominal brokerage commissions. No purchases of our equity securities were made pursuant to this authorization during the nine months ended September 30, 2007. At September 30, 2008, we had remaining repurchase authority of 1,653,333 shares.

During the nine-month periods ended September 30, 2008 and 2007, we purchased and retired 13,881 and 8,288 shares of our outstanding common stock for $139,000 and $112,000, 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. No purchases were made during the three-month periods ended September 30, 2008 or 2007.

NOTE 6 Stockholders Equity

As of September 30, 2008 and December 31, 2007, accumulated other comprehensive loss consists of the following:

	September 30, 2008	December 31, 2007
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income taxes of $184,000 and $190,000, respectively	$ (270,000)	$ (278,000)
Accumulated unrealized loss on available-for-sale securities, net of income tax benefit of $5,000	(7,000)	
Accumulated other comprehensive loss	$ (277,000)	$ (278,000)

NOTE 7 Financial Instruments

We adopted FASB Statement No. 157 effective January 1, 2008 for financial assets and liabilities measured on a recurring basis. Statement No. 157 applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. There was no impact from the adoption of Statement No. 157 to the consolidated financial statements. Statement No. 157 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement requires fair value measurement be 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).

Our short-term investments and financial instruments as of September 30, 2008 consist of marketable equity securities which are recorded at fair value in our consolidated financial statements based on quoted market prices (Level 1 inputs). As of September 30, 2008, these investments had a cost basis and fair value of $130,000 and $118,000, respectively.

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

The carrying value of our revolving line of credit at September 30, 2008 and December 31, 2007 approximates its fair value based on the interest rates available on similar borrowings.

NOTE 8 - Related Party Transactions

During the three and nine-month periods ended September 30, 2008 and 2007, we allocated costs of $541,000 and $1,598,000, and $471,000 and $1,429,000, respectively, to DVD, a company related through common ownership, for certain administrative and operating services. Additionally, DVD allocated costs of $109,000 and $181,000, and $51,000 and $153,000 to us for the three and nine-month periods ended September 30, 2008 and 2007, respectively. The allocations were based on an analysis of each company s share of the costs. In connection with DVD s 2008 and 2007 NASCAR event weekends at Dover International Speedway, we provided certain services for which DVD was invoiced $603,000 and $1,237,000, and $598,000 and $1,198,000, during the three and nine-month periods ended September 30, 2008 and 2007, respectively. Additionally, DVD invoiced us $157,000 and $433,000, and $192,000 and $484,000 in the three and nine-month periods ended September 30, 2008 and 2007, respectively, for our rental of a skybox suite, tickets and other services during DVD s 2008 and 2007 NASCAR event weekends at Dover International Speedway. As of September 30, 2008 and December 31, 2007, our consolidated balance sheets include a $7,000 and $18,000 payable to DVD, respectively, for the aforementioned items. We settled the September payable in the fourth quarter of 2008 and the December payable in the first quarter of 2008. 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.

Our use of DVD s 5/8-mile harness racing track is pursuant to an easement granted to us by DVD which does not require the payment of any rent. Under the terms of the easement, we 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 harness track is located on property owned by DVD and is on the inside of DVD s motorsports superspeedway. Our indoor grandstands are used by DVD at no charge in connection with its major motorsports events. DVD also leases its principal office space from us. Various easements and agreements relative to access, utilities and parking have also been entered into between DVD and us relative to our respective Dover, Delaware facilities.

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, Kenneth K. Chalmers, Denis McGlynn, Jeffrey W. Rollins, John W. Rollins, Jr., R. Randall Rollins 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 condition or cash flows.

As of September 30, 2008, we have purchase obligations related to the Phase VI expansion of our casino. Construction began in the first quarter of 2007 and was completed in October 2008. The estimated cost of the casino expansion is $51,500,000, of which approximately $46,000,000 was paid through September 30, 2008, and approximately $4,700,000 is included in accounts payable in the consolidated balance sheet.

Effective July 1, 2008, the State enacted legislation that (1) increases the existing surcharge on the portion of slot win that we retain, (2) requires that we pay the costs of all franchise games which were previously shared with the State, and (3) requires that we pay an additional annual amount to a certain horse racing industry organization previously funded by the State. That legislation also allows us to operate all day on Sundays and eliminates the prior legislatively imposed limit on our use of free promotional slot play. We are unable to quantify the overall effect of this new legislation on our operations going forward.

We have employment, severance and noncompete agreements with certain of our officers and directors under which certain change of control, severance and noncompete payments and benefits might become payable in the event of a change in our control, defined to include a tender offer or the closing of a merger or similar corporate transactions. In the event of such a change in our control and the subsequent termination of employment of all employees covered under these agreements, we estimate that the maximum contingent liability would range from $9,100,000 to $13,200,000 depending on the tax treatment of the payments.

To the extent that any of the potential payments or benefits due under the agreements constitute an excess parachute payment under the Internal Revenue Code and result in the imposition of an excise tax, each agreement requires that we pay the amount of such excise tax plus any additional amounts necessary to place the officer or director in the same after-tax position as he would have been had no excise tax been imposed. We estimate that the tax gross ups that could be paid under the agreements in the event the agreements were triggered due to a change of control could be as high as $4,100,000 and this amount has been included in the maximum contingent liability disclosed above. This maximum tax gross up assumes that none of the payments made after the hypothetical change in control would be characterized as reasonable compensation for services rendered. Each agreement with an executive officer provides that fifty percent of the monthly amount paid during the term is paid in consideration of the executive officer s non-compete covenants. The exclusion of these amounts would reduce the calculated amount of excess parachute payments subject to tax. However, as we are unable to conclude whether the Internal Revenue Service would characterize all or some of these non-compete payments as reasonable compensation for services rendered, we have included the full amount of these payments in our calculation.

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 diversified gaming and entertainment company whose operations consist of Dover Downs Casino a 165,000 square-foot video lottery casino complex featuring the latest in slot machine offerings, including multi-player electronic table games with virtual dealers; the Dover Downs Hotel and Conference Center a 500 room AAA Four Diamond hotel with conference, banquet, fine dining, ballroom, concert hall and spa facilities; and Dover Downs Raceway a harness racing track with pari-mutuel wagering on live and simulcast horse races.

On July 10, 2008, our Phase VI casino expansion, The Colonnade, was partially opened to the public with more than 500 slot machines, Doc Magrogan s Oyster House, Sweet Perks Too and the Dover Downs Fire & Ice Lounge debuting. Two more restaurants, Public House and Marabella s, and four retail outlets opened in late September 2008. The expansion, which is now complete, added approximately 68,000 square-feet of space bringing our video lottery casino complex to 165,000 square-feet housing approximately 3,120 slot machines.

Approximately 90% of our revenue is derived from video lottery (slot) machine win. Several factors contribute to the video lottery (slot) machine 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 available,
- The quality of the physical property,
- Other amenities offered on site,
- Customer service levels,

- Marketing programs, and
- General economic conditions.

We believe that we hold a strong position in each of these areas. 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 2000 United States Census, approximately 32.8 million people live within 150 miles of our complex. There are significant barriers to entry related to the gaming business in Delaware. By law, only three existing horse racing facilities in the State are allowed to have a gaming license. Our property, originally designed and developed with the assistance of Caesars, is similar to properties found in the country s largest gaming markets. Our recently expanded luxury hotel is the only casino hotel in Delaware, providing a strong marketing tool, especially to higher-end players. We also utilize our slot marketing system to allow for the most efficient marketing programs and the highest levels of customer service.

Because all of our 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 the region s premier gaming destination and building and rewarding customer loyalty through innovative marketing efforts, unparalleled customer service and a variety of amenities.

Results of Operations

Gaming revenues represent (i) the net win from video lottery (slot) machine wins and losses 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. 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 statement of earnings.

For the video lottery 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 video lottery operations, collects the State s share of the win and the amount due to the vendors under contract with the State who provide the video lottery (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 video lottery (slot) machines and associated computer systems, and (iii) for harness horse racing purses. 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.

Three Months Ended September 30, 2008 vs. Three Months Ended September 30, 2007

Gaming revenues decreased by $1,289,000, or 2.2%, to $58,576,000 in the third quarter of 2008 primarily as a result of decreased play in our casino. We believe that the decrease in casino play can be attributed to a general downturn in economic conditions. We believe that the decrease would have been more significant but for the opening of our Phase VI casino expansion in the third quarter of 2008, the opening of our hotel expansion during the latter part of 2007, targeted marketing efforts using our player database and our efforts to provide our customers with enhanced casino products and other amenities. Our average number of machines increased from 2,716 in the third quarter of 2007 to 3,115 in the third quarter of 2008 due to our Phase VI casino expansion.

Other operating revenues were $5,353,000 in the third quarter of 2008 as compared to $4,701,000 in the third quarter of 2007. Net food and beverage revenues increased $56,000 to $3,203,000 from $3,147,000 in the third quarter of 2007 primarily due to the opening of the Dover Downs Fire & Ice Lounge in July 2008 and an increase in sales at our fine dining restaurant Michele s, partially offset by a decrease in sales at our Festival Buffet restaurant and banquet sales. Additionally, cash rooms revenue increased $357,000 in the third quarter of 2008 mainly due to the hotel expansion. All other operating revenues increased $239,000 in the third quarter of 2008 as compared to the third quarter of 2007 primarily due to an increase in concert revenues. Other operating revenues do not include the retail amount of promotional allowances which are provided to customers on a complimentary basis of $4,965,000 and $4,225,000 in the third quarter of 2008 and 2007, respectively.

Gaming expenses increased by $2,097,000, or 4.8%, primarily as a result of a $439,000 increase in the amounts retained by the State of Delaware and a $233,000 increase in the amount collected by the State for payment to the vendors under contract with the State who provide the video lottery (slot) machines and associated computer systems. Those expenses increased primarily due to legislation enacted by the State effective July 1, 2008 that (1) increases the existing surcharge on the portion of slot win that we retain, (2) requires that we pay the costs of all franchise games which were previously shared with the State, and (3) requires that we pay an additional annual amount to a certain horse racing industry organization previously funded by the State. That legislation also allows us to operate all day on Sundays and eliminates the prior legislatively imposed limit on our use of free promotional slot play. Also, an increase in the number of slot machines in operation as a result of our Phase VI expansion contributed to the increased expenses. Amounts allocated from the video lottery operation for harness horse racing purses decreased from $6,995,000 in the third quarter of 2007 to $6,888,000 in the third quarter of 2008. Higher marketing costs and utility expenses were primarily responsible for the remainder of the increase.

Other operating expenses increased by $254,000, or 6.3%. Expenses related to our food and beverage operations were $3,378,000 in the third quarter of 2008 and $3,223,000 in the third quarter of 2007. These increased expenses included initial costs of operations related to our new Sweet Perks Too and Dover Downs Fire & Ice Lounge which opened in the third quarter of 2008. Expenses related to our rooms operations increased $109,000 in the third quarter of 2008 primarily due to the hotel expansion.

General and administrative expenses remained consistent between the third quarter of 2008 and 2007 at $1,572,000 and $1,539,000, respectively.

Depreciation expense was $2,885,000 in the third quarter of 2008 as compared to $2,056,000 in the third quarter of 2007. The increase resulted primarily from the opening of our Phase VI casino expansion in the third quarter of 2008 and our hotel expansion during the second half of 2007.

Interest expense increased by $251,000 due to higher average outstanding borrowings on our credit facility used to fund our hotel expansion which was completed in October 2007, our casino expansion and repurchases of our outstanding common stock for $10,911,000, not including nominal brokerage commissions, in the fourth quarter of 2007 and the first nine months of 2008. Additionally, the amount of interest we capitalized decreased to $35,000 during the third quarter of 2008 from $425,000 during the third quarter of 2007. The interest expense associated with the borrowings for our hotel and casino expansions was being capitalized as part of the project cost. Partially offsetting these increases was a decrease in our average interest rate on our credit facility.

Our effective income tax rate was 41.1% and 41.0% for the three months ended September 30, 2008 and 2007, respectively.

Nine Months Ended September 30, 2008 vs. Nine Months Ended September 30, 2007

Gaming revenues decreased by $921,000, or 0.5%, to $169,219,000 in the first nine months of 2008 primarily as a result of decreased play in our casino. We believe that the decrease in casino play can be attributed to a general downturn in economic conditions. We believe that the decrease would have been more significant but for the opening of our Phase VI casino expansion in the third quarter of 2008, the opening of our hotel expansion during the latter part of 2007, targeted marketing efforts using our player database and our efforts to provide our customers with enhanced casino products and other amenities. Our average number of machines increased from 2,723 in the first nine months of 2007 to 2,813 in the first nine months of 2008 due to our Phase VI casino expansion.

Other operating revenues were $14,470,000 in the first nine months of 2008 as compared to $12,925,000 in the first nine months of 2007. Net food and beverage revenues increased $482,000 to $9,377,000 from $8,895,000 in the first nine months of 2007 primarily due to the opening of the Dover Downs Fire & Ice Lounge in July 2008 and increased sales at our Michele s fine dining restaurant. Additionally, cash rooms revenue increased $774,000 in the first nine months of 2008 mainly due to the hotel expansion. All other operating revenues increased $289,000 primarily due to an increase in concert revenues. Other operating revenues do not include the retail amount of promotional allowances which are provided to customers on a complimentary basis of $13,787,000 and $11,460,000 in the first nine months of 2008 and 2007, respectively.

Gaming expenses increased by $4,808,000, or 3.9%, primarily as a result of a $2,010,000 increase in the amounts retained by the State of Delaware and a $463,000 increase in the amount collected by the State for payment to the vendors under contract with the State who provide the video lottery (slot) machines and associated computer systems. Those expenses increased primarily due to legislation enacted by the State effective May 10, 2007 that established a one-time increase in the amount remitted to the State by its three video lottery agents and a tax on promotional slot play in excess of a legislative limit for the period and from the aforementioned legislation enacted by the State effective July 1, 2008. Also, increased franchise costs on certain machines and an increase in the number of slot machines in operation as a result of our Phase VI expansion contributed to the increased expenses. Amounts allocated from the video lottery operation for harness horse racing purses remained consistent between the first nine months of 2008 and 2007 at $19,581,000 and $19,585,000, respectively. Higher marketing costs, real estate taxes and utility expenses were primarily responsible for the remainder of the increase.

Other operating expenses increased by $454,000, or 4.0%. Expenses related to our food and beverage operations were $9,621,000 in the first nine months of 2008 and $9,271,000 in the first nine months of 2007. These increased expenses included initial costs of operations related to our new Sweet Perks Too and Dover Downs Fire & Ice Lounge which opened in the third quarter of 2008. Expenses related to our rooms operations increased $258,000 in the first nine months of 2008 primarily due to the hotel expansion. These increases were partially offset by a decrease in all other operating expenses of $154,000 in the first nine months of 2008 as compared to the first nine months of 2007.

General and administrative expenses increased by $289,000 to $4,932,000 from $4,643,000 in the first nine months of 2007, primarily the result of higher stock based compensation expenses, higher wages and benefits costs and losses on the disposal of property and equipment of $187,000.

Depreciation expense was $7,745,000 in the first nine months of 2008 as compared to $5,533,000 in the first nine months of 2007. The increase resulted primarily from the opening of our hotel expansion during the second half of 2007 and our Phase VI casino expansion during the third quarter of 2008.

Interest expense increased by $842,000 due to higher average outstanding borrowings on our credit facility used to fund our hotel expansion which was completed in October 2007, our casino expansion and repurchases of our outstanding common stock for $10,911,000, not including nominal brokerage commissions, in the fourth quarter of 2007 and the first nine months of 2008. Additionally, the amount of interest we capitalized decreased to $567,000 during the first nine months of 2008 from $1,326,000 during the first nine months of 2007. The interest expense associated with the borrowings for our hotel and casino expansions was being capitalized as part of the project cost. Partially offsetting these increases was a decrease in our average interest rate on our credit facility.

Our effective income tax rate was 41.0% for the nine months ended September 30, 2008 and 2007.

Liquidity and Capital Resources

Net cash provided by operating activities was $22,529,000 for the nine months ended September 30, 2008 compared to $26,171,000 for the nine months ended September 30, 2007. The decrease was primarily due to the decrease in net earnings and to a lesser extent other working capital changes.

Net cash used in investing activities was $36,477,000 for the nine months ended September 30, 2008 compared to $40,470,000 for the nine months ended September 30, 2007 and was primarily related to capital improvements. Capital expenditures for the first nine months of 2008 related primarily to the Phase VI casino expansion. Capital expenditures for the first nine months of 2007 related primarily to the Dover Downs Hotel expansion and to a lesser extent, the Phase VI casino expansion.

Net cash provided by financing activities was $10,232,000 for the nine months ended September 30, 2008 compared to $13,005,000 for the nine months ended September 30, 2007. During the first nine months of 2008, we borrowed an additional $15,650,000 under our credit facility compared to $16,400,000 during the first nine months of 2007. We repurchased and retired $1,040,000 of our outstanding common stock during the first nine months of 2008. Additionally, we paid $4,769,000 and $4,408,000 in cash dividends during the first nine months of 2008 and 2007, respectively.

On October 29, 2008, our Board of Directors declared a quarterly cash dividend on both classes of common stock of $0.05 per share. The dividend is payable on December 10, 2008 to shareholders of record at the close of business on November 10, 2008.

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. During the nine months ended September 30, 2008, we purchased and retired 98,500 shares of our outstanding common stock pursuant to this plan at an average purchase price of $9.09 per share, not including nominal brokerage commissions. No purchases of our equity securities were made pursuant to this authorization during the nine months ended September 30, 2007. At September 30, 2008, we had remaining repurchase authority of 1,653,333 shares.

During 2007, we more than doubled the number of hotel rooms in the Dover Downs Hotel from 232 to 500, including eleven luxury spa suites, and added a luxurious 6,000 square-foot spa. Construction began in the second quarter of 2006 and was completed in October 2007. The cost of the hotel expansion was approximately

$47,500,000. On March 30, 2007, we announced our Phase VI casino expansion plan that added approximately 68,000 square-feet to the Dover Downs Casino and features a new main entrance for the casino, a new gaming floor with room for more than 500 additional slot machines and the new Dover Downs Fire & Ice Lounge an upscale entertainment lounge that will seat approximately 200 guests. The expansion also includes retail space and three new restaurants. Construction began in the first quarter of 2007. On July 10, 2008, one of the new restaurants, the Dover Downs Fire & Ice Lounge and the new gaming floor were operational. The remaining construction was completed in late September 2008. The estimated cost of the Phase VI casino expansion is approximately $51,500,000, of which approximately $46,000,000 was paid as of September 30, 2008. The remainder is expected to be paid during the fourth quarter of 2008. Based on current business conditions, other than the casino expansion we expect to make capital expenditures of approximately $1,000,000 during the remainder of 2008, primarily for renovations to our existing casino facility, casino equipment and improvements in our food and beverage departments. Additionally, we expect to contribute between $1,000,000 and $1,250,000 to our pension plans in 2008, of which $1,000,000 was contributed during the first nine months of 2008.

We have a credit facility with Wilmington Trust Company that expires on April 17, 2012. At September 30, 2008, the maximum borrowing limit under the facility was $125,000,000 which reduces to $100,000,000 on January 1, 2010, to $85,000,000 on January 1, 2011 and to $75,000,000 on January 1, 2012. Interest is based, at our option, upon LIBOR plus a margin that varies between 75 and 125 basis points (95 basis points at September 30, 2008, which increased to 125 basis points effective October 1, 2008) depending on the ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the leverage ratio) or the base rate (the greater of the prime rate or the federal funds rate plus 0.5%) less a margin that varies between 50 and 100 basis points (75 basis points at September 30, 2008, which decreased to 50 basis points effective October 1, 2008) depending on the leverage ratio. The credit facility has minimum net worth, interest coverage and maximum leverage requirements. Material adverse changes in our results of operations could impact our ability to satisfy these requirements. The facility is for seasonal funding needs, capital improvements (including our hotel and casino expansions) and other general corporate purposes. At September 30, 2008, we were in compliance with all terms of the facility and there was $108,075,000 outstanding at a weighted average interest rate of 3.95%. At September 30, 2008, $16,925,000 was available pursuant to the facility.

Effective July 1, 2008, the State enacted legislation that (1) increases the existing surcharge on the portion of slot win that we retain, (2) requires that we pay the costs of all franchise games which were previously shared with the State, and (3) requires that we pay an additional annual amount to a certain horse racing industry organization previously funded by the State. That legislation also allows us to operate all day on Sundays and eliminates the prior legislatively imposed limit on our use of free promotional slot play. We estimate that these increased costs would have amounted to an additional $4,000,000 had they been imposed on our activities for the year ended December 31, 2007, but we are unable to quantify the overall effect of this new legislation on our operations going forward.

We expect 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 at least through the next twelve months, as well as any cash dividends our Board of Directors may declare. We expect cash flows from operating activities and funds available from our credit facility to also provide for long-term liquidity.

Contractual Obligations

At September 30, 2008, we had the following contractual obligations:

	Payments Due by Period				
	Total	**2008**	**2009 2010**	**2011 2012**	**Thereafter**
Revolving line of credit	$ 108,075,000	$	$ 8,075,000	$ 100,000,000	$
Estimated interest payments on revolving line of credit	13,508,000	1,067,000	8,219,000	4,222,000	
Pension contributions	4,000,000		2,000,000	2,000,000	
Purchase obligations	5,500,000	5,500,000			
	$ 131,083,000	$ 6,567,000	$ 18,294,000	$ 106,222,000	$

The future interest payments on our revolving credit agreement were estimated using the current outstanding principal or the maximum borrowing limit and interest rates as of September 30, 2008.

Although we currently have no required minimum contribution related to our pension plans, we expect to contribute approximately $1,000,000 per year to the plans.

The purchase obligations in the above table relate to payments to be made on our Phase VI casino expansion.

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

The accounting policies described below are those considered critical by us in preparing our consolidated financial statements and/or include significant estimates made by management using information available at the time the estimates are made. As described below, these estimates could change materially if different information or assumptions were used.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided for financial reporting purposes using the straight-line method over estimated useful lives ranging from 5 to 10 years for furniture, fixtures and equipment and up to 40 years for facilities. These estimates require assumptions that are believed to be reasonable. 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. No such events or changes in circumstances have occurred to date. 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.

Recent Accounting Pronouncements

See NOTE 3 Summary of Significant Accounting Policies to our consolidated financial statements included elsewhere in this document for a description of recent accounting pronouncements including the expected dates of adoption and effects on results of operations, financial condition and cash flows.

Factors That May Affect Operating Results; Forward-Looking Statements

In addition to historical information, this Quarterly Report on Form 10-Q 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, proposed acquisitions, market forces, corporate strategies, consumer preferences, contractual commitments, legal matters, capital requirements and other matters. Documents incorporated by reference into this Annual 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, goals, aims, projects, forecasts, possible, seeks, may, could, should, might, likely, ena expressions are used in this document, as well as statements containing phrases such as in our view, there can be no assurance, although no assurance can be given or there is no way to anticipate with certainty, forward-looking statements are being made.

Various risks and uncertainties may affect the operation, performance, development and results of our business and could cause future outcomes to differ materially from those set forth in our forward-looking statements, including the following factors:

- general market and economic conditions, including consumer and corporate spending sentiment;
- success of any expansion to or renovation of our existing facilities or changes in our growth strategies;
- expansion of gaming in neighboring jurisdictions;
- trends and uncertainties in the gaming industry;
- patron demographics;
- our ability to finance future business requirements;
- our ability to effectively compete in the marketplace;
- the availability of adequate levels of insurance;
- our development and potential acquisition of new facilities;
- our ability to successfully integrate acquired companies and businesses;
- management retention and development;
- changes in Federal, state, and local laws and regulations, including environmental, gaming license and tax

legislation;

- the effect of weather conditions or travel on attendance at our facilities;

- military or other government actions; and

- national or local catastrophic events.

The above risks and uncertainties and the cautionary statements below should be considered in connection with any future forward-looking statements we make. 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.

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

We compete in local and regional markets with horse tracks, off-track betting parlors, state run lotteries, casinos and other gaming facilities. We cannot be certain that we will maintain our market share or compete more effectively with our competitors. The introduction or expansion of gaming in neighboring jurisdictions, particularly Maryland, Virginia, West Virginia, Washington, D.C., Pennsylvania or New Jersey, or the legalization of additional gaming venues in Delaware, could have a material adverse effect on our cash flows and results of operations. From time to time legislation is proposed for adoption in these jurisdictions which if enacted, would further expand state gambling and wagering opportunities, including video lottery (slot) machines at racetracks. Enactment of such legislation could increase our competition and could adversely affect our business, financial condition and overall profitability. For example, after several failed attempts in prior years, the Maryland Legislature passed legislation in 2008 that will permit up to 15,000 slot machines in five different specific locations throughout Maryland. The legislation requires a Constitutional amendment and, therefore, will be put to a vote by the Maryland electorate in a special referendum to be held in November 2008. Even if the referendum passes, the establishment of any gaming locations in the State remains subject to local zoning prohibitions and may face further opposition. As the number of machines and the specific locations of the gaming establishments will be set by the State s Constitution, any changes to the number of machines or the locations would require further amendment to the State Constitution. It is difficult for us to predict whether the referendum will pass and if it passes what types of gaming establishments may ultimately be built in Maryland or when they are likely to become operational. Management has estimated that approximately 42% of our total slot win comes from Maryland patrons. Approximately 71% of our Capital Club® member slot win comes from out of state patrons. In July 2004, Pennsylvania adopted legislation which authorizes up to 61,000 slot machines at various existing and proposed venues throughout the state. It is difficult for us to predict the effect that such legislation will ultimately have on us, but several facilities in Pennsylvania began operations by the end of 2006. Management has estimated that slot win from Pennsylvania patrons currently represents approximately 5% of our total slot win which is the same as the prior year.

All Of Our Facilities Are In One Location

Our 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 or other reasons could adversely affect our financial condition and results of operations. We maintain property and business interruption insurance to protect against such 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 compensate us for lost profits.

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

The Delaware State Lottery Office and the Delaware Harness Racing Commission regulate our gaming operations. Our license from the Commission must be renewed on an annual basis. To keep our license for video lottery (slot) machine gaming, we must remain licensed for harness horse racing by the Commission and conduct at least 80 live race days each racing season, subject to the availability of harness race horses. The 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 (the Lottery Director) has broad discretion to revoke, suspend or modify the terms of a video lottery 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

Video lottery (slot) machine 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 video lottery (slot) machine 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.

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 will likely incur similar burdens in any other jurisdiction in which we may conduct gaming operations in the future. 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.

Effective July 1, 2008, the State enacted legislation that (1) increases the existing surcharge on the portion of slot win that we retain, (2) requires that we pay the costs of all franchise games which were previously shared with the State, and (3) requires that we pay an additional annual amount to a certain horse racing industry organization previously funded by the State. That legislation also allows us to operate all day on Sundays and eliminates the prior legislatively imposed limit on our use of free promotional slot play. We estimate that these increased costs would have amounted to an additional $4,000,000 had they been imposed on our activities for the year ended December 31, 2007, but we are unable to quantify the overall effect of this new legislation on our operations going forward.

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. Such 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.

We Do Not Own Or Lease Our Video Lottery (Slot) Machines And Related Technology

We do not own or lease the video lottery (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 video lottery (slot) machines and computer systems. The State purchases or leases all equipment and the Lottery Director licenses all technology providers. 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risk resulting from changes in interest rates. We do not engage in speculative or leveraged transactions, hold no derivative financial instruments, nor hold or issue financial instruments for trading purposes.

At September 30, 2008, we have marketable securities of $118,000. These securities, which consist of mutual funds, are classified as available-for-sale and reported at fair-value in our consolidated balance sheet. Fair-value is determined based on the current market values.

At September 30, 2008, there was $108,075,000 outstanding under our revolving credit facility. A change in interest rates of one percent on the balance outstanding at September 30, 2008 would cause a change in total annual interest costs of $1,081,000. The carrying values of these borrowings approximate their fair values at September 30, 2008.

<u>Item 4.</u> <u>Controls and Procedures</u>

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, 2008, 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, 2008 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**

Disclosure regarding the most significant factors that may adversely affect our business, operations, industry or financial position or our future financial performance is set forth under the section entitled, *Factors That May Affect Operating Results; Forward-Looking Statements*, beginning on page 17.

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 three months ended September 30, 2008. At September 30, 2008, we had remaining repurchase authority of 1,653,333 shares.

Item 3. **Defaults Upon Senior Securities**

None.

Item 4. **Submission of Matters to a Vote of Security Holders**

None.

Item 5. **Other Information**

None.

Item 6. **Exhibits**

10.1 Amendment to certain agreements between Dover Downs Gaming & Entertainment, Inc. and selected executives and directors

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

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 3, 2008

Dover Downs Gaming & Entertainment, Inc.
Registrant

/s/ Denis McGlynn
Denis McGlynn
President, Chief Executive Officer
and Director

/s/ Timothy R. Horne
Timothy R. Horne
Senior Vice President-Finance,
Treasurer and
Chief Financial Officer