

DOVER DOWNS GAMING & ENTERTAINMENT INC  
Form 10-Q  
August 06, 2010

**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 June 30, 2010**

**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)

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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  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

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 July 31, 2010, the number of shares of each class of the registrant's common stock outstanding is as follows:

Common Stock -	15,637,022 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Gaming	\$ 52,722	\$ 53,310	\$ 104,418	\$ 108,213
Other operating	5,736	5,220	10,090	9,397
	58,458	58,530	114,508	117,610
Expenses:				
Gaming	44,829	42,463	88,801	85,616
Other operating	4,347	3,908	7,799	7,251
General and administrative	1,706	1,778	3,433	3,508
Depreciation	2,823	3,073	5,846	6,021
	53,705	51,222	105,879	102,396
Operating earnings	4,753	7,308	8,629	15,214
Interest expense	876	628	1,559	1,265
Earnings before income taxes	3,877	6,680	7,070	13,949
Income taxes	1,600	2,742	3,120	5,718
Net earnings	2,277	3,938	3,950	8,231
Unrealized (loss) gain on interest rate swap, net of income taxes	(94)	261	(261)	67
Amortization of net actuarial loss and prior service cost included in net periodic pension benefit cost, net of income taxes	8	34	16	68
Unrealized (loss) gain on available-for-sale securities, net of income taxes	(4)	7	(2)	2
Comprehensive earnings	\$ 2,187	\$ 4,240	\$ 3,703	\$ 8,368
Net earnings per common share:				

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Basic	\$	0.07	\$	0.12	\$	0.12	\$	0.26
Diluted	\$	0.07	\$	0.12	\$	0.12	\$	0.26

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

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

## CONSOLIDATED BALANCE SHEETS

In Thousands, Except Share and Per Share Amounts

(Unaudited)

	June 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash	\$ 15,933	\$ 21,415
Accounts receivable	3,058	2,636
Due from State of Delaware	5,734	11,069
Inventories	2,206	2,170
Prepaid expenses and other	2,049	2,151
Receivable from Dover Motorsports, Inc.	8	5
Prepaid income taxes		129
Deferred income taxes	1,244	1,209
Total current assets	30,232	40,784
Property and equipment, net	190,458	192,360
Other assets	849	863
Total assets	\$ 221,539	\$ 234,007
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,463	\$ 3,078
Purses due horsemen	5,757	10,219
Accrued liabilities	7,309	8,788
Income taxes payable	1	
Deferred revenue	221	306
Total current liabilities	17,751	22,391
Revolving line of credit	85,025	95,125
Liability for pension benefits	4,941	4,900
Other liabilities	626	186
Deferred income taxes	3,698	4,166
Total liabilities	112,041	126,768
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: 15,637,022 and 15,461,219, respectively	1,564	1,546
Class A common stock, \$0.10 par value; 50,000,000 shares authorized; shares issued and outstanding: 16,603,173 and 16,603,173, respectively	1,660	1,660
Additional paid-in capital	2,138	1,664
Retained earnings	105,573	103,559
Accumulated other comprehensive loss	(1,437)	(1,190)
Total stockholders equity	109,498	107,239
Total liabilities and stockholders equity	\$ 221,539	\$ 234,007

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

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

	Six Months Ended June 30,	
	2010	2009
Operating activities:		
Net earnings	\$ 3,950	\$ 8,231
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	5,846	6,021
Amortization of credit facility origination fees	34	18
Stock-based compensation	609	478
Deferred income taxes	(572)	(124)
Changes in assets and liabilities:		
Accounts receivable	(422)	408
Due from State of Delaware	5,335	4,267
Inventories	(36)	(58)
Prepaid expenses and other	79	(527)
Receivable from/payable to Dover Motorsports, Inc.	(3)	(2)
Accounts payable	(361)	(510)
Purses due horsemen	(4,462)	(3,987)
Accrued liabilities	(1,479)	640
Income taxes payable/receivable	369	(887)
Deferred revenue	(85)	21
Other liabilities	68	267
Net cash provided by operating activities	8,870	14,256
Investing activities:		
Capital expenditures	(2,198)	(2,081)
Proceeds from sale of available-for-sale securities	41	
Purchase of available-for-sale securities	(42)	
Net cash used in investing activities	(2,199)	(2,081)
Financing activities:		
Borrowings from revolving line of credit	49,985	89,775
Repayments of revolving line of credit	(60,085)	(97,475)
Dividends paid	(1,936)	(3,208)
Repurchase of common stock	(117)	(59)
Net cash used in financing activities	(12,153)	(10,967)
Net (decrease) increase in cash	(5,482)	1,208
Cash, beginning of period	21,415	17,889
Cash, end of period	\$ 15,933	\$ 19,097
Supplemental information:		
Interest paid	\$ 1,414	\$ 1,685
Income taxes paid	\$ 3,324	\$ 6,730
Change in accounts payable for capital expenditures	\$ 1,746	\$ (1,580)

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 5, 2010. 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 six-month periods ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

**NOTE 2 - Business Operations**

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

We are a diversified gaming and entertainment company 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, the Crown Royal poker room, and our Race & Sports Book operation;
- Dover Downs Hotel and Conference Center a 500 room AAA Four Diamond hotel with 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.

The casino facility includes the Dover Downs Fire & Ice Lounge, Doc Magrogan's Oyster House, Frankie's Italian restaurant, as well as several bars, restaurants and four retail outlets. All of our operations are located at our entertainment complex in Dover, the capital of the State of Delaware.

During the third quarter of 2009, we opened our Race & Sports Book operation and Frankie's Italian restaurant. The Race & Sports Book features parlay sports wagering on National Football League (NFL) games and pari-mutuel wagering on live and simulcast horse races. In January 2010, the Delaware legislature authorized table games at the facilities of the State's three video lottery agents. On June 25, 2010, we opened our table games operation with 40 tables. The Crown Royal poker room opened on July 14, 2010.

Dover Downs Gaming & Entertainment, Inc. is a public holding company that has two wholly owned subsidiaries: Dover Downs, Inc. and Dover Downs Gaming 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 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, sports wagering and table game 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 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 Harness Racing Commission for the past 41 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.

### **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 other assets 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.

*Derivative Instruments and Hedging Activities* We are subject to interest rate risk on the variable component of the interest rate under our revolving credit agreement. Effective January 15, 2009, we entered into a \$35,000,000 interest rate swap agreement. We have designated the interest rate swap as a cash flow hedge. Changes in the fair value of the effective portion of the interest rate swap are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. See NOTE 4 Credit Facility 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 \$81,489,000 and \$76,127,000 as of June 30, 2010 and December 31, 2009, respectively.

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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.

*Income taxes* Deferred income taxes are provided on all differences between the tax basis 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. Tax years after 2005 remain open to examination for federal and state income tax purposes.

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*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 \$1,992,000 and \$1,936,000, respectively, at June 30, 2010 and December 31, 2009, 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 and table game wins and losses, (ii) our portion of the net win from sports wagering and (iii) 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 \$4,269,000 and \$8,278,000, and \$4,461,000 and \$8,767,000 for the three and six-month periods ended June 30, 2010 and 2009, 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 casino 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 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.

*Net earnings per common share* Basic and diluted net earnings per common share (EPS) are calculated in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 260, *Earnings Per Share*. The following table sets forth the computation of basic and diluted EPS (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net earnings per common share basic:				
Net earnings	\$ 2,277	\$ 3,938	\$ 3,950	\$ 8,231
Net earnings allocated to nonvested restricted stock awards	49	71	85	148
Net earnings available to common stockholders	\$ 2,228	\$ 3,867	\$ 3,865	\$ 8,083
Weighted-average shares outstanding	31,555	31,493	31,551	31,489
Net earnings per common share basic	\$ 0.07	\$ 0.12	\$ 0.12	\$ 0.26
Net earnings per common share diluted:				
Net earnings	\$ 2,277	\$ 3,938	\$ 3,950	\$ 8,231
Net earnings allocated to nonvested restricted stock awards	49	71	85	148
Net earnings available to common stockholders	\$ 2,228	\$ 3,867	\$ 3,865	\$ 8,083

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Weighted-average shares outstanding	31,555	31,493	31,551	31,489
Dilutive stock options				
Weighted-average shares and dilutive shares outstanding	31,555	31,493	31,551	31,489
Net earnings per common share diluted	\$ 0.07	\$ 0.12	\$ 0.12	\$ 0.26

For the three and six-month periods ended June 30, 2010 and 2009, options to purchase 440,000 and 537,000, and 635,000 and 635,000 shares of common stock, respectively, were outstanding but not included in the computation of diluted EPS because they would have been anti-dilutive.

*Accounting for stock-based compensation* We recorded total stock-based compensation expense for our restricted stock awards and stock options of \$298,000 and \$609,000, and \$240,000 and \$478,000 as general and administrative expenses for the three and six-month periods ended June 30, 2010 and 2009, respectively. We recorded income tax benefits of \$121,000 and \$248,000, and \$97,000 and \$194,000 for the three and six-month periods ended June 30, 2010 and 2009, respectively, related to our restricted stock awards.

*Use of estimates* The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, disclosures about contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on our best estimates and judgment. We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which we believe to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

*Recent accounting pronouncements* In April 2010, the FASB issued Accounting Standards Update ( ASU ) 2010-16 codified in FASB ASC Topic 924, *Accruals for Casino Jackpot Liabilities a consensus of the FASB Emerging Issues Task Force*, which addresses diversity in practice in the accounting for casino base jackpot liabilities. ASU 2010-16 clarifies that an entity should not accrue jackpot liabilities before a jackpot is won if the entity can avoid paying that jackpot. Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. The provisions of ASU 2010-16 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The adoption of this pronouncement is not expected to have an impact on our consolidated financial statements.

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

At June 30, 2010, we had a \$105,000,000 credit facility with a bank group. The maximum borrowing limit under the facility reduces to \$95,000,000 on April 1, 2011 and to \$82,500,000 on April 1, 2012 and the agreement terminates on January 1, 2013. Interest is based, at our option, upon LIBOR plus a margin that varies between 175 and 350 basis points (275 basis points at June 30, 2010) depending on the ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the leverage ratio ) or the base rate minus 100 basis points plus a margin that varies between 25 and 200 basis points (125 basis points at June 30, 2010) depending on the leverage ratio. In either case, the minimum interest rate on borrowings under the agreement ranges from 275 to 400 basis points depending on the leverage ratio (325 basis points at June 30, 2010). The base rate option is not available for the portion of indebtedness equal to the notional amount under our interest rate swap agreement. 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. In addition, the credit agreement also includes a material adverse change clause. The facility is for seasonal funding needs, capital improvements and other general corporate purposes. At June 30, 2010, we were in compliance with all terms of the facility and there was \$85,025,000 outstanding at a weighted average interest rate of 3.27%. At June 30, 2010, \$19,975,000 was available pursuant to the facility.

Effective January 15, 2009, we entered into an interest rate swap agreement that effectively converts \$35,000,000 of our variable-rate debt to a fixed-rate basis, thereby hedging against the impact of potential interest rate changes on future interest expense. The agreement terminates on April 17, 2012. Pursuant to this agreement, we pay a fixed interest rate of 1.74%, plus a margin that varies between 175 and 350 basis points

depending on our leverage ratio (275 basis points at June 30, 2010). In return, the issuing lender refunds to us the variable-rate interest



paid to the bank group under our revolving credit agreement on the same notional principal amount, excluding the margin.

**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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	\$ 337,000	\$ 364,000	\$ 675,000	\$ 728,000
Interest cost	199,000	175,000	398,000	350,000
Expected return on plan assets	(166,000)	(125,000)	(332,000)	(250,000)
Recognized net actuarial loss	11,000	55,000	22,000	110,000
Amortization of prior service cost	3,000	2,000	5,000	4,000
	\$ 384,000	\$ 471,000	\$ 768,000	\$ 942,000

We contributed \$150,000 and \$700,000, and \$225,000 and \$675,000 to our pension plans during the three and six-month periods ended June 30, 2010 and 2009, respectively. We expect to contribute approximately \$1,000,000 to our pension plans in 2010.

**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, 2009</b>	\$ 1,546	\$ 1,660	\$ 1,664	\$ 103,559	\$ (1,190)
Net earnings				3,950	
Dividends paid, \$0.06 per share				(1,936)	
Issuance of nonvested stock awards, net of forfeitures	21		(21)		
Stock-based compensation			609		
					(261)

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Unrealized loss on interest rate swap, net of income tax benefit of \$179									
Amortization of net actuarial loss and prior service cost included in net periodic pension benefit cost, net of income tax expense of \$11									16
Unrealized loss on available-for-sale securities, net of income tax benefit of \$2									(2)
Repurchase and retirement of common stock	(3)		(114)						
<b>Balance at June 30, 2010</b>	\$	1,564	\$	1,660	\$	2,138	\$	105,573	\$ (1,437)

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As of June 30, 2010 and December 31, 2009, accumulated other comprehensive loss consists of the following:

	June 30, 2010	December 31, 2009
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of \$733,000 and \$744,000, respectively	\$ (1,071,000)	\$ (1,087,000)
Unrealized loss on interest rate swap, net of income tax benefit of \$255,000 and \$76,000, respectively	(371,000)	(110,000)
Accumulated unrealized gain on available-for-sale securities, net of income tax expense of \$4,000 and \$6,000, respectively	5,000	7,000
Accumulated other comprehensive loss	\$ (1,437,000)	\$ (1,190,000)

On July 28, 2010, our Board of Directors declared a quarterly cash dividend on both classes of common stock of \$.03 per share. The dividend is payable on September 10, 2010 to stockholders of record at the close of business on August 10, 2010.

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 six months ended June 30, 2010 or 2009. At June 30, 2010, we had remaining repurchase authority of 1,653,333 shares.

During the three and six-month periods ended June 30, 2010, we purchased and retired 4,006 and 30,697 shares of our outstanding common stock for \$16,000 and \$117,000, respectively. During the three and six-month periods ended June 30, 2009, we purchased and retired 3,391 and 15,325 shares of our outstanding common stock for \$14,000 and \$59,000, 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 Financial Instruments

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;

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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 June 30, 2010:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Available-for-sale securities	\$ 125,000	\$ 125,000		
Interest rate swap	(626,000)		(626,000)	

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

At June 30, 2010 and December 31, 2009, there was \$85,025,000 and \$95,125,000, 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. We are subject to interest rate risk on the variable component of the interest rate. Our risk management objective is to lock in the interest cash outflows on a portion of our debt. As a result, as described in NOTE 4 Credit Facility, we entered into an interest rate swap agreement effectively converting a portion of the outstanding borrowings under the revolving credit agreement to a fixed-rate, thereby hedging against the impact of potential interest rate changes on future interest expense. At June 30, 2010, the interest rate swap had a negative fair value of \$626,000 which is recorded in other liabilities. The fair value of the interest rate swap was based on quotes from the issuer of the swap and represents the estimated amounts that we would expect to pay to terminate the swap. We recognized \$261,000, net of income taxes, in unrealized losses on our interest rate swap during the six months ended June 30, 2010.

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.

#### **NOTE 8 - Related Party Transactions**

During the three and six-month periods ended June 30, 2010 and 2009, we allocated costs of \$504,000 and \$976,000, and \$499,000 and \$988,000, respectively to 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 \$40,000 and \$125,000, and \$60,000 and \$133,000, respectively, to us for the three and six-month periods ended June 30, 2010 and 2009. The allocations were based on an analysis of each company's share of the costs. In connection with DVD's May 2010 and June 2009 NASCAR event weekends at Dover International Speedway, we provided certain services, primarily catering, for which DVD was invoiced \$470,000 and \$491,000, respectively. Additionally, DVD invoiced us \$134,000 and \$227,000, and \$121,000 and \$212,000 in the three and six-month periods ended June 30, 2010 and 2009, respectively, for our rental of a skybox suite, tickets and other services during DVD's 2010 and 2009 NASCAR event weekends at Dover International Speedway. As of June 30, 2010 and December 31, 2009, our consolidated balance sheets included an \$8,000 and \$5,000 receivable from DVD, respectively, for the aforementioned items. We settled these items in July 2010 and January 2010, 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, 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 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 diversified gaming and entertainment company 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, the Crown Royal poker room, and our Race & Sports Book operation;
- Dover Downs Hotel and Conference Center a 500 room AAA Four Diamond hotel with 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.

The casino facility includes the Dover Downs Fire & Ice Lounge, Doc Magrogan's Oyster House, Frankie's Italian restaurant, as well as several bars, restaurants and four retail outlets. All of our operations are located at our entertainment complex in Dover, the capital of the State of Delaware.

Approximately 90% of our revenue is derived from gaming win. 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.

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, currently only the three existing horse racing facilities in the State are allowed to have a gaming license. 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 slot marketing system to allow for more efficient marketing programs and the highest levels of customer service. Our facility offers the most conference space of any hotel in Delaware.

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 slot machine and table game wins and losses (ii) our portion of the net win from sports wagering and (iii) 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 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.

### *Three Months Ended June 30, 2010 vs. Three Months Ended June 30, 2009*

Gaming revenues decreased by \$588,000, or 1.1%, to \$52,722,000 in the second quarter of 2010 as a result of decreased slot machine play in our casino. The decrease was partially offset by revenues from our table game operations which opened on June 25, 2010 with 40 tables including blackjack, poker, craps and roulette. Our average number of slot machines was 2,779 in the second quarter of 2010 as compared to 3,036 in the second quarter of 2009. The lower number of slot machines resulted from the removal of machines to make room for our new table game operations.

Other operating revenues were \$5,736,000 in the second quarter of 2010 as compared to \$5,220,000 in the second quarter of 2009. Cash rooms revenue increased \$288,000 in the second quarter of 2010 mainly due to an increase in convention and transient sales. Cash food and beverage revenues increased \$510,000 to \$3,670,000 from \$3,160,000 in the second quarter of 2009 due primarily to higher banquet sales and the opening of our Race & Sports Book restaurant and Frankie's Italian restaurant in September 2009. Partially offsetting these increases was a decrease in concert revenues as a result of promoting fewer concerts during the second quarter of 2010. Other operating revenues do not include the retail amount of promotional allowances which are provided to customers on a complimentary basis of \$4,269,000 and \$4,461,000 in the second quarter of 2010 and 2009, respectively.

Gaming expenses increased by \$2,366,000, or 5.6%, primarily as a result of significantly higher gaming taxes and slot machine fees that resulted from legislation passed in May of 2009. The impact of this legislative initiative resulted in an increase in our gaming taxes and slot machine fees of approximately \$2,300,000 in the second quarter of 2010. Additionally, table game related expenses, which primarily consisted of training and start-up costs, were

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approximately \$720,000 for the second quarter of 2010. Partially offsetting these increases were decreases in our gaming taxes, computer system fees and harness horse racing purses due to the lower gaming revenues.

Other operating expenses increased by \$439,000, or 11.2%, due to the higher revenues.

General and administrative expenses decreased to \$1,706,000 in the second quarter of 2010 as compared to \$1,778,000 in the second quarter of 2009. The decrease was primarily due to the expensing of a \$100,000 loan to UG Entertainment LLC related to the Underground Atlanta project in the second quarter of 2009.

Depreciation expense decreased slightly to \$2,823,000 in the second quarter of 2010 as compared to \$3,073,000 in the second quarter of 2009.

Interest expense increased by \$248,000 due to a higher average interest rate on our credit facility.

Our effective income tax rate remained consistent at 41.3% for the three months ended June 30, 2010 as compared to 41.0% for the three months ended June 30, 2009.

### *Six Months Ended June 30, 2010 vs. Six Months Ended June 30, 2009*

Gaming revenues decreased by \$3,795,000, or 3.5%, to \$104,418,000 in the first six months of 2010 as a result of decreased slot machine play in our casino which was significantly impacted by record snow fall in the region during the first quarter. Our average number of slot machines was 2,875 in the first six months of 2010 as compared to 3,055 in the first six months of 2009. The lower number of slot machines resulted from the removal of machines to make room for our new table game operations.

Other operating revenues were \$10,090,000 in the first six months of 2010 as compared to \$9,397,000 in the first six months of 2009. Cash rooms revenue increased \$408,000 in the first six months of 2010 mainly due to an increase in convention and transient sales. Cash food and beverage revenues increased \$575,000 to \$6,543,000 from \$5,968,000 in the first six months of 2009 due primarily to higher banquet sales and the opening of our Race & Sports Book restaurant and Frankie's Italian restaurant in September 2009. Partially offsetting these increases was a decrease in our cash services revenue. Other operating revenues do not include the retail amount of promotional allowances which are provided to customers on a complimentary basis of \$8,278,000 and \$8,767,000 in the first six months of 2010 and 2009, respectively.

Gaming expenses increased by \$3,185,000, or 3.7%, primarily as a result of significantly higher gaming taxes and slot machine fees that resulted from legislation passed in May of 2009. The impact of this legislative initiative resulted in an increase in our gaming taxes and slot machine fees of approximately \$5,600,000 in the first six months of 2010. Additionally, table game related expenses, which primarily consisted of training and start-up costs, were approximately \$780,000 for the first six months of 2010. Partially offsetting these increases were decreases in our gaming taxes, computer system fees and harness horse racing purses due to the lower gaming revenues.

Other operating expenses increased by \$548,000, or 7.6%, due to the higher revenues.

General and administrative expenses decreased slightly for the first six months of 2010 to \$3,433,000 from \$3,508,000.

Depreciation expense decreased slightly to \$5,846,000 in the first six months of 2010 as compared to \$6,021,000 in the first six months of 2009.

Interest expense increased by \$294,000 due to a higher average interest rate on our credit facility.

Our effective income tax rate was 44.1% for the six months ended June 30, 2010 as compared to 41.0% for the six months ended June 30, 2009. The increase was the result of the tax impact of restricted stock awards that vested during the first six months of 2010. We expect the effective income tax rate to approximate 42% for the full year.

## Liquidity and Capital Resources

Net cash provided by operating activities was \$8,870,000 for the six months ended June 30, 2010 compared to \$14,256,000 for the six months ended June 30, 2009. The decrease was primarily due to the lower earnings and the timing of payments to the Delaware State Lottery Office for its portion of the slot win.

Net cash used in investing activities was \$2,199,000 for the six months ended June 30, 2010 compared to \$2,081,000 for the six months ended June 30, 2009 and was primarily related to capital improvements. Capital expenditures for the first six months of 2010 related primarily to our table games operations, payments for which will extend into the third quarter of 2010. Capital expenditures for the first six months of 2009 related primarily to final payments made for our Phase VI casino expansion.

Net cash used in financing activities was \$12,153,000 for the six months ended June 30, 2010 compared to \$10,967,000 for the six months ended June 30, 2009. During the first six months of 2010, we repaid \$10,100,000 of our credit facility. During the first six months of 2009, we repaid \$7,700,000 of our credit facility. We paid \$1,936,000 and \$3,208,000 in cash dividends during the first six months of 2010 and 2009, respectively. We repurchased and retired \$117,000 of our outstanding common stock during the first six months of 2010 compared to \$59,000 during the first six months of 2009.

On July 28, 2010, our Board of Directors declared a quarterly cash dividend on both classes of common stock of \$0.03 per share. The dividend is payable on September 10, 2010 to shareholders of record at the close of business on August 10, 2010.

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 six months ended June 30, 2010 or 2009. At June 30, 2010, we had remaining repurchase authority of 1,653,333 shares.

Based on current business conditions, we expect to make capital expenditures of approximately \$4,000,000 to \$4,500,000 during the remainder of 2010. Additionally, we expect to contribute approximately \$1,000,000 to our pension plans in 2010, of which \$700,000 was contributed in the first six months of 2010.

At June 30, 2010, we had a \$105,000,000 credit facility with a bank group. Effective February 19, 2010, the credit facility was amended to extend the maturity date, increase the maximum borrowing limit, revised certain financials covenants and change the margins used to determine interest rates. The maximum borrowing limit under the facility reduces to \$95,000,000 on April 1, 2011 and to \$82,500,000 on April 1, 2012 and the agreement terminates on January 1, 2013. Interest is based, at our option, upon LIBOR plus a margin that varies between 175 and 350 basis points (275 basis points at June 30, 2010) depending on the ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the leverage ratio) or the base rate minus 100 basis points plus a margin that varies between 25 and 200 basis points (125 basis points at June 30, 2010) depending on the leverage ratio. In either case, the minimum interest rate on borrowings under the agreement ranges from 275 to 400 basis points depending on the leverage ratio (325 basis points at June 30, 2010). The base rate option is not available for the portion of indebtedness equal to the notional amount under our interest rate swap agreement. 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. In addition, the credit agreement also includes a material adverse change clause. The facility is for seasonal funding needs,

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capital improvements and other general corporate purposes. At June 30, 2010, we were in compliance with all terms of the facility and there was \$85,025,000 outstanding at a weighted average interest rate of 3.27%. At June 30, 2010, \$19,975,000 was available pursuant to the facility.

Effective January 15, 2009, we entered into an interest rate swap agreement that effectively converts \$35,000,000 of our variable-rate debt to a fixed-rate basis, thereby hedging against the impact of potential interest rate changes on future interest expense. The agreement terminates on April 17, 2012. Pursuant to this agreement, we pay a fixed interest rate of 1.74%, plus a margin that varies between 175 and 350 basis points depending on our

leverage ratio (275 basis points at June 30, 2010). In return, the issuing lender refunds to us the variable-rate interest paid to the bank group under our revolving credit agreement on the same notional principal amount, excluding the margin.

In May of 2009, the State enacted legislation, which became effective May 28, 2009, that increased the gaming taxes paid to the State on the portion of slot win that we retain. The impact of this legislation was approximately \$5,600,000 for the first six months of 2010.

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 June 30, 2010, we had the following contractual obligations:

	Total	2010	Payments Due by Period			
			2011	2012	2013	2014
Revolving line of credit	\$ 85,025,000	\$	\$ 2,525,000	\$	\$ 82,500,000	\$
Estimated interest payments on revolving line of credit(a)	7,778,000	1,635,000	6,143,000			
Pension contributions(b)	300,000	300,000				
	\$ 93,103,000	\$ 1,935,000	\$ 8,668,000	\$	\$ 82,500,000	\$

(a) The future interest payments on our revolving credit agreement were estimated using the current outstanding principal or the maximum borrowing limit as of June 30, 2010, as applicable. For \$35,000,000 of our outstanding borrowings, we used the fixed interest rate per the interest rate swap agreement through the termination date of the swap agreement.

(b) We expect to contribute approximately \$1,000,000 to our pension plans for 2010, of which \$700,000 was contributed in the first six months of 2010. For years subsequent to 2010, we are unable to estimate what our pension contributions will be.

### 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 3 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. 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.



### *Accrued Pension Cost*

The benefits provided by our defined-benefit pension plans are based on years of service and employee's remuneration over their employment with us. Accrued pension costs are developed using actuarial principles and assumptions which consider a number of factors, including estimates for the discount rate, assumed rate of compensation increase, and expected long-term rate of return on assets. Changes in these estimates would impact the amounts that we record in our consolidated financial statements and our funding contributions to the plans.

### **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**

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**

We are exposed to financial market risk resulting from changes in interest rates. We do not engage in speculative or leveraged transactions, nor hold or issue financial instruments for trading purposes.

At June 30, 2010, we have marketable securities of \$125,000. 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 June 30, 2010, there was \$85,025,000 outstanding under our revolving credit agreement. The credit agreement bears interest, at our option, upon LIBOR plus a margin that varies between 175 and 350 basis points (275 basis points at June 30, 2010) depending on the ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the leverage ratio) or the base rate minus 100 basis points plus a margin that varies between 25 and 200 basis points (125 basis points at June 30, 2010) depending on the leverage ratio. In either case, the minimum interest rate on borrowings under the agreement ranges from 275 to 400 basis points depending on the leverage ratio (325 basis points at June 30, 2010). The base rate option is not available for the portion of indebtedness equal to the notional amount under our interest rate swap agreement. Therefore, we are subject to interest rate risk on the variable component of the interest rate. Historically, we managed our mix of fixed and variable rate debt by structuring the terms of our debt agreements. Effective January 15, 2009, we entered into an interest rate swap agreement that effectively converted \$35,000,000 of our variable-rate debt to a fixed-rate basis, thereby hedging against the impact of potential interest rate changes on future interest expense. Pursuant to this agreement, we pay a fixed interest rate of 1.74%, plus a margin that varies between 175 and 350 basis points depending on our leverage ratio (275 basis points at June 30, 2010). In return, the issuing lender refunds to us

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the variable-rate interest paid to the bank group under our revolving credit agreement on the same notional principal amount, excluding the margin. The agreement terminates on April 17, 2012. As of June 30, 2010, the interest rate swap had a negative fair value of \$626,000. An increase in interest rates of one percent would result in the interest rate swap having a fair value of approximately \$15,000 at June 30, 2010. A decrease in interest rates of one percent would result in the interest rate swap having a negative fair value of approximately \$1,248,000 at June 30, 2010. A change in interest rates will have no impact on the interest expense associated with the \$35,000,000 of borrowings under the revolving credit agreement that are subject to the interest rate swap agreement. A change in interest rates of one percent on the outstanding borrowings under the revolving credit agreement at June 30, 2010 not subject to the interest rate swap would cause a change in total annual interest costs of \$500,000. The borrowings under our revolving credit agreement bear interest at the variable rate described above and therefore approximate fair value at June 30, 2010.

**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 June 30, 2010, 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 June 30, 2010 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, proposed 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,

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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.

*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. 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 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. Approximately 69% of our Capital Club® member slot win comes from out of state patrons.

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. Delaware is surrounded by jurisdictions which permit slot machines, such as Pennsylvania, New Jersey, Maryland and West Virginia, and all of these jurisdictions with the exception of Maryland also permit table games. Voters in Maryland adopted a Constitutional amendment in November 2008 that permits up to 15,000 slot machines in five different specific locations throughout Maryland. The establishment of any additional gaming locations in the State remains subject to local zoning and may face further opposition. As the number of machines and the specific locations of the gaming establishments are fixed by the State's Constitution, any changes to the number of machines or the locations would require further amendment to the State Constitution. Table games are currently not permitted in Maryland. Management has estimated that approximately 42% of our total slot win comes from Maryland patrons. Some of these patrons may prefer the convenience of facilities closer to home.

In 2004, Pennsylvania adopted legislation which authorizes up to 61,000 slot machines at various existing and proposed venues throughout the state. Management has estimated that slot win from Pennsylvania patrons currently represents approximately 4% 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, 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*

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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 must be renewed on an annual basis. To keep 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. 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 our 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*

Slot machine gaming, sports betting, table games, 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.

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 over the past few years. We would 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.

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 Have a Significant Amount of Indebtedness*

As of June 30, 2010, we had total outstanding long-term debt of \$85,025,000 under our credit facility. This indebtedness and any future increases in our outstanding borrowings could:

- make it more difficult for us to satisfy our debt obligations;

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- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- increase our costs or 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 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. 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.

*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. At our expense, 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.

*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**

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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 six months ended June 30, 2010. At June 30, 2010, we had remaining repurchase authority of 1,653,333 shares.

During the three months ended June 30, 2010, we purchased and retired 4,006 shares of our outstanding common stock for \$16,000. 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.

The following table details our purchases of equity securities for the three months ended June 30, 2010:

Period		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2010	April 30, 2010	4,006	\$ 4.13		1,653,333
May 1, 2010	May 31, 2010				1,653,333
June 1, 2010	June 30, 2010				1,653,333
Total		4,006	\$ 4.13		1,653,333

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Reserved**

**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

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: August 6, 2010

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 and Chief Financial Officer*  
(Principal Financial and Accounting Officer)