

DOVER DOWNS GAMING & ENTERTAINMENT INC  
Form 10-Q  
August 02, 2018

**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, 2018**

**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 ☒  
Emerging growth company ☐

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

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

As of July 31, 2018, the number of shares of each class of the registrant's common stock outstanding is as follows:

Common Stock -	18,413,587 shares
Class A Common Stock -	14,869,623 shares

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenues:</b>				
Gaming	\$ 33,895	\$ 33,227	\$ 68,029	\$ 68,533
Other operating	10,238	9,914	19,263	18,620
	44,133	43,141	87,292	87,153
<b>Expenses:</b>				
Gaming	32,730	32,115	65,565	65,981
Other operating	7,655	7,425	14,689	14,262
General and administrative	1,342	1,333	2,727	2,708
Depreciation	2,050	2,086	4,190	4,032
	43,777	42,959	87,171	86,983
Operating earnings	356	182	121	170
Interest expense	(199)	(208)	(408)	(417)
Other income	84	44	167	88
Earnings (loss) before income taxes	241	18	(120)	(159)
Income tax (expense) benefit	(88)	15		(4)
Net earnings (loss)	153	33	(120)	(163)
Change in pension net actuarial loss and prior service cost, net of income taxes	30	30	59	61
Unrealized gain on equity investments, net of income taxes		3		1
Comprehensive income (loss)	\$ 183	\$ 66	\$ (61)	\$ (101)
<b>Net earnings (loss) per common share:</b>				
Basic	\$	\$	\$	\$ (0.01)
Diluted	\$	\$	\$	\$ (0.01)

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

**DOVER DOWNS GAMING & ENTERTAINMENT, INC.****CONSOLIDATED BALANCE SHEETS****In Thousands, Except Share and Per Share Amounts****(Unaudited)**

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 10,837	\$ 10,714
Accounts receivable	3,013	3,557
Due from State of Delaware	4,794	5,720
Inventories	1,932	1,928
Prepaid expenses and other	2,847	2,840
Receivable from Dover Motorsports, Inc.	19	7
Income taxes receivable	317	318
Total current assets	23,759	25,084
Property and equipment, net	131,835	134,527
Other assets	370	564
Deferred income taxes	1,765	1,786
Total assets	\$ 157,729	\$ 161,961
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,949	\$ 2,571
Purses due horsemen	4,799	5,814
Accrued liabilities	7,499	8,111
Deferred credits	122	49
Contract liabilities	3,971	3,724
Revolving line of credit	18,000	19,900
Total current liabilities	36,340	40,169
Liability for pension benefits	7,080	7,483
Total liabilities	43,420	47,652
Commitments and contingencies (see Notes to the Consolidated Financial Statements)		
Stockholders' equity:		
Preferred stock, \$0.10 par value; 1,000,000 shares authorized; shares issued and outstanding: none		
Common stock, \$0.10 par value; 74,000,000 shares authorized; shares issued and outstanding: 18,413,587 and 18,272,809, respectively	1,841	1,827
Class A common stock, \$0.10 par value; 50,000,000 shares authorized; shares issued and outstanding: 14,869,623 and 14,869,623, respectively	1,487	1,487
Additional paid-in capital	5,924	5,877
Retained earnings	109,731	109,817
Accumulated other comprehensive loss	(4,674)	(4,699)
Total stockholders' equity	114,309	114,309
Total liabilities and stockholders' equity	\$ 157,729	\$ 161,961

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



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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Operating activities:		
Net loss	\$ (120)	\$ (163)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	4,190	4,032
Amortization of credit facility origination fees	20	26
Stock-based compensation	135	186
Deferred income taxes	(2)	(171)
Losses on equity investments	2	
Changes in assets and liabilities:		
Accounts receivable	544	1,113
Due from State of Delaware	926	3,458
Inventories	(4)	(277)
Prepaid expenses and other	(12)	(389)
Receivable from Dover Motorsports, Inc.	(12)	(26)
Income taxes receivable	1	124
Accounts payable	(547)	(687)
Purses due horsemen	(1,015)	(3,782)
Accrued liabilities	(612)	(1,534)
Deferred credits	73	131
Contract liabilities	247	449
Liability for pension benefits	(321)	(199)
Net cash provided by operating activities	3,493	2,291
Investing activities:		
Capital expenditures	(1,393)	(1,196)
Purchase of equity investments	(21)	(40)
Proceeds from sale of equity investments	18	38
Net cash used in investing activities	(1,396)	(1,198)
Financing activities:		
Borrowings from revolving line of credit	29,830	46,720
Repayments of revolving line of credit	(31,730)	(48,970)
Repurchase of common stock	(74)	(74)
Net cash used in financing activities	(1,974)	(2,324)
Net increase (decrease) in cash	123	(1,231)
Cash, beginning of period	10,714	11,677
Cash, end of period	\$ 10,837	\$ 10,446
Supplemental information:		
Interest paid	\$ 395	\$ 390
Income tax payments	\$	\$ 51
Change in accounts payable for capital expenditures	\$ (75)	\$ (177)

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



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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 Basis of Presentation**

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

The accompanying consolidated financial statements have been prepared in compliance with Rule 10-01 of Regulation S-X and U.S. generally accepted accounting principles, and accordingly do not include all of the information and disclosures required for audited financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our latest Annual Report on Form 10-K filed on March 1, 2018. In the opinion of management, these consolidated financial statements include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. Operating results for the three and six-month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

**NOTE 2 - Business Operations**

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

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

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

On May 14, 2018, a U.S. Supreme Court decision overturned the Professional and Amateur Sports Protection Act. As a result, on June 5, 2018 our Race & Sports Book operation began offering a full range of betting on professional and college sports, including single game wagering on a wide variety of sports, including football, baseball, basketball, boxing, mixed martial arts, hockey and soccer.

As previously announced on July 22, 2018, we entered into a definitive merger agreement with Twin River Worldwide Holdings, Inc. The merger contemplates that our stockholders will exchange their stock for Twin River common shares representing 7.225% of the equity in the combined company at closing. Our Common Stock and Class A Common Stock will be treated equally in the merger. The transaction is intended to qualify as a tax-free reorganization (except for cash paid in lieu of fractional shares). We anticipate the transaction will close in early 2019, subject to regulatory approvals and customary closing conditions.

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

Our license from the Delaware Harness Racing Commission (the Commission) to hold harness race meetings on our premises and to offer pari-mutuel wagering on live and simulcast horse races must be renewed on an annual basis. In order to maintain our gaming license, we are required to maintain our harness horse racing license. We have received an annual license from the Commission for the past 49 consecutive years and management believes that our relationship with the Commission remains good.

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

In recent years, the mid-Atlantic region has experienced a significant expansion in gaming venues and gaming offerings. This has had a significant adverse effect on our visitation numbers, our revenues and our profitability. Management has estimated that approximately 27% of our gaming win comes from Maryland patrons and approximately 59% of our Capital Club® member gaming win comes from out of state patrons.

In June 2018, after several years of effort, legislation providing relief to the State's gaming industry was enacted. Senate Substitute No. 1 to Senate Bill 144, which passed with broad support in both the House and Senate, was signed by the Governor on June 30, 2018. Effective July 1, 2018, the Bill revises the State's share of gross table game revenues from 29% to 15.5%; eliminates the table game license fee for each video lottery agent, provided that the agent increase certain expenditures on marketing, wages and benefits; reduces the State's share of gross slot machine revenues by 1%, with a further 2% reduction possible, beginning July 1, 2019, for each video lottery agent, provided that the agent make certain qualified capital expenditures; and increases purses to horsemen by 0.6% (over two years). The Bill also removes the prohibition against video lottery agents operating on Christmas or Easter.

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

*Property and equipment* Property and equipment is stated at cost. Depreciation is provided using the straight-line method over the asset's estimated useful life. Accumulated depreciation was \$148,077,000 and \$144,147,000 as of June 30, 2018 and December 31, 2017, respectively.

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

*Revenue and expense recognition* Our revenue contracts with customers consist of gaming wagers, hotel room sales, food and beverage sales, and miscellaneous other transactions. Gaming revenues represent (i) the net win from slot machine, table games, internet gaming and sports wagering and (ii) commissions from pari-mutuel wagering. The difference between the amount wagered by bettors and the amount paid out to bettors is referred to as the win. 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, and pari-mutuel commissions earned from live harness horse racing and importing of simulcast signals from other race tracks when the event occurs.

For casino wager contracts that include complimentary goods and services provided by us to gaming patrons on a discretionary basis to incentivize gaming, we allocate a portion of the net win to the complimentary goods or services delivered based upon the estimated standalone selling price.

For casino wager contracts that include incentives earned by customers under our loyalty programs, we allocate a portion of net win based upon the estimated standalone selling price of such incentive. This allocation is deferred and recognized as revenue when the customer redeems the incentive. When redeemed, revenue is recognized in the department that provides the goods or service. After allocating revenue to other goods and services provided as part of casino wager contracts, we record the residual amount to casino revenue.

Revenues from hotel room sales, food and beverage sales and other miscellaneous sources are recognized at the time the service is provided and include actual amounts paid for such services, the value of loyalty points redeemed for such services, and the portion of gaming win allocated to complimentary goods and services. Amounts received in advance for hotel rooms, convention bookings and advance ticket sales are recorded as contract liabilities until the services are provided to the customer, at which point revenue is recognized.

Our revenues disaggregated by type are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gaming	\$ 33,895	\$ 33,227	\$ 68,029	\$ 68,533
Other operating:				
Rooms	3,238	3,076	5,457	5,232
Food and beverage	5,668	5,480	11,255	10,655
Other	1,332	1,358	2,551	2,733
	10,238	9,914	19,263	18,620
Total revenues	\$ 44,133	\$ 43,141	\$ 87,292	\$ 87,153

We currently have a point loyalty program for our customers which allows them to earn points based on the volume of their gaming activity. Prior to the adoption of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, the estimated amount of points redeemable for cash was recorded as a reduction of gaming revenue and the estimated cost of points redeemable for services and merchandise was recorded as gaming expense. Our liability for unredeemed points was based on the estimated costs of services or merchandise to be provided and estimated redemption rates. Under the new standard effective January 1, 2018, points awarded under our point loyalty program are considered a material right given to customers based on their gaming play and are accounted for as a separate performance obligation. The new standard requires us to allocate revenues associated with the customers' gaming activity between gaming revenue and the value of the points earned after factoring in the likelihood of redemption. As a result, gaming revenues are reduced with a corresponding increase to other operating revenues or our point liability. The value of the unredeemed points is now determined based on the estimated standalone selling price of the points earned. The revenue associated with the points earned is recognized in the period in which they are redeemed. As a result of applying the new standard, our point liability increased and our retained earnings balance decreased by \$559,000 (\$403,000 after income taxes) at December 31, 2017. See NOTE 6 Stockholders' Equity. Additionally, we have recast the prior period consolidated statement of earnings (loss) which resulted in additional earnings (loss) of \$3,000 (\$1,000 after income taxes) and (\$17,000) (\$11,000 after income taxes) for the three and six-month periods ended June 30, 2017.

We have the following receivables related to contracts with customers; marker balances and other amounts due from gaming activities, billings for banquets and conventions, amounts due for hotel stays, and amounts due from exporting our live harness racing signals to other race tracks. As of June 30, 2018 and December 31, 2017, our contract receivables were \$1,285,000 and \$1,537,000, respectively. We have the following liabilities related to contracts with customers; liabilities for our point loyalty program, deposits made in advance for goods and services yet to be provided, and unpaid wagers. All of our contract liabilities are short term in nature. Loyalty points earned by customers are typically redeemed within one year from when they are earned and expire if a customer's account is inactive for twelve months; therefore, the majority of points outstanding at the end of a period will either be redeemed or expire within the next year. Additionally, our liability for unredeemed points does not change significantly from period to period. During the three and six-month periods ended June 30, 2018, we recognized

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approximately \$724,000 and \$1,412,000 of revenues related to loyalty point redemptions and our liability at June 30, 2018 was \$2,355,000. Advance deposits are typically for future banquet events and to reserve hotel rooms.

These deposits are usually received weeks or months in advance of the event or hotel stay. Unpaid wagers not claimed within twelve months by the customer who earned them are escheated to the state.

Prior to the adoption of ASU 2014-09, other operating revenues did not include the retail amount of hotel rooms, food and beverage and other miscellaneous goods and services provided on a complimentary basis or through our point loyalty program to customers as promotional items. The estimated direct cost of providing these items was charged to the casino through interdepartmental allocations and included in gaming marketing expenses. The new standard requires the complimentary items to be considered a separate performance obligation, which requires us to allocate a portion of revenue from a gaming transaction to other operating revenue based on the estimated standalone selling prices of the promotional items provided. For example, when a casino customer is given a complimentary room, we are now required to allocate a portion of the casino revenue earned from the customer to rooms revenue based on the estimated standalone selling price of the room. The estimated standalone selling price of hotel rooms is determined based on observable prices. The standalone selling price of food and beverage, and other miscellaneous goods and services is determined based upon the actual retail prices charged customers for those items. Revenue is recognized in the period the goods or service is provided. As a result of applying the new standard, gaming revenues and expenses decreased significantly and other operating revenues and expenses increased.

Gaming revenues allocated to rooms, food and beverage, and other revenues were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Rooms	\$ 1,125	\$ 1,155	\$ 2,289	\$ 2,335
Food and beverage	1,884	1,658	3,822	3,432
Other	246	254	477	549
	\$ 3,255	\$ 3,067	\$ 6,588	\$ 6,316

*Advertising costs* Advertising costs are charged to operations as incurred. Advertising expenses were \$561,000 and \$984,000, and \$518,000 and \$967,000 for the three and six-month periods ended June 30, 2018 and 2017, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net earnings (loss) per common share basic and diluted:				
Net earnings (loss)	\$ 153	\$ 33	\$ (120)	\$ (163)
Allocation to nonvested restricted stock awards	3	1		
Net earnings (loss) available to common stockholders	\$ 150	\$ 34	\$ (120)	\$ (163)

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Weighted-average shares outstanding and diluted	basic	32,447	32,322	32,445	32,321
Net earnings (loss) per common share and diluted	basic	\$	\$	\$	(0.01)

There were no options outstanding and we paid no dividends during the six months ended June 30, 2018 or 2017.

*Accounting for stock-based compensation* We recorded total stock-based compensation expense for our restricted stock awards of \$53,000 and \$135,000, and \$58,000 and \$186,000 as general and administrative expenses for the three and six-month periods ended June 30, 2018 and 2017, respectively. We recorded income tax benefits of \$14,000 and \$10,000, and \$23,000 and \$3,000 for the three and six-month periods ended June 30, 2018 and 2017, respectively, related to vesting of our restricted stock awards.



*Recent accounting pronouncements* In February 2018, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which provides the option to reclassify certain income tax effects related to the Tax Cuts and Jobs Act passed in December of 2017 between accumulated other comprehensive income and retained earnings and also requires additional disclosures. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Adoption of this ASU is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the tax laws or rates were recognized. We are currently analyzing the impact of this ASU and, at this time, we have not yet determined whether we will elect to make this optional reclassification.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)*. ASU 2017-07 provides guidance on the presentation of the service cost component and the other components of net period pension cost in the consolidated statements of earnings (loss). The standard is effective for annual and interim reporting periods beginning after December 15, 2017 and requires retrospective adoption. We adopted this ASU effective January 1, 2018, which resulted in a reclassification of \$44,000 and \$88,000 of pension benefit from general and administrative expenses to other income in our consolidated statements of earnings (loss) for the three and six-month periods ended June 30, 2017.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position and also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The update is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. Early adoption is permitted. We are currently analyzing the impact of this ASU and, at this time, we are unable to determine the impact of the new standard on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Some of the amendments include the following: 1) Require certain equity investments to be measured at fair value with changes in fair value recognized in net income; 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) Require public business entities to use exit price notion when measuring fair value of financial instruments for disclosure purposes; 4) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting in a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others. The update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted this standard effective January 1, 2018. In accordance with the standard, we reclassified \$34,000, net of income taxes, of unrealized gains from accumulated other comprehensive loss to retained earnings as of January 1, 2018. See NOTE 6 Stockholders' Equity. Additionally, changes in fair value of equity investments are now included in other income in our consolidated statements of earnings (loss). See NOTE 7 Fair Value Measurements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States of America. The FASB has issued several amendments to the standard, including clarification on accounting for and identifying performance obligations. The standard can be applied using the full retrospective method or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with

customers. The update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted this standard effective January 1, 2018 using the full retrospective method. See *Revenue and expense recognition* above for further discussion.

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The cumulative effect of the changes made to our December 31, 2017 consolidated balance sheet for the adoption of ASU 2014-09, *Revenue from Contracts with Customers*, were as follows (in thousands):

	As Reported Balance at December 31, 2017	Adjustments Due to ASU 2014-09	Revised Balance at December 31, 2017
<b>Assets</b>			
Deferred income taxes	\$ 1,630	\$ 156	\$ 1,786
<b>Liabilities</b>			
Accounts payable	3,769	(1,198)	2,571
Accrued liabilities	9,811	(1,700)	8,111
Deferred credits	316	(267)	49
Contract liabilities		3,724	3,724
<b>Stockholders' equity</b>			
Retained earnings	110,220	(403)	109,817

**Reclassifications** Certain amounts in the prior year financial statements have been reclassified to conform to the current-year presentation. The impact of the reclassifications made to prior year amounts are not material and did not affect net earnings (loss).

## NOTE 4 Credit Facility

At June 30, 2018, we had a \$32,500,000 credit agreement with our bank group. The credit facility expires on September 30, 2018. Interest is based upon LIBOR plus a margin that varies between 150 and 350 basis points (175 basis points at June 30, 2018) depending on the leverage ratio. The credit facility is secured by a mortgage on and security interest in all real and personal property owned by our wholly owned subsidiary Dover Downs, Inc. The credit facility contains certain covenants including maximum ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the leverage ratio), and a minimum fixed charge coverage ratio. Material adverse changes in our results of operations could impact our ability to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause and prohibits the payment of dividends. The credit facility provides for seasonal funding needs, capital improvements and other general corporate purposes. At June 30, 2018, there was \$18,000,000 outstanding at an interest rate of 3.84% and \$14,500,000 was available pursuant to the facility. Additionally, we were in compliance with all terms of the facility at June 30, 2018 and we expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods through September 30, 2018, the expiration date of the facility.

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

## NOTE 5 Pension Plans

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We maintain a non-contributory, tax qualified defined benefit pension plan that has been frozen since July 2011. All of our full time employees were eligible to participate in this qualified pension plan. Benefits provided by our qualified pension plan were based on years of service and employees' remuneration over their term of employment. Compensation earned by employees up to July 31, 2011 is used for purposes of calculating benefits under our pension plan with no future benefit accruals after this date. We also maintain a non-qualified, non-contributory defined benefit pension plan, the excess plan, for certain employees that has been frozen since July 2011. This excess plan provided benefits that would otherwise be provided under the qualified pension plan but for

maximum benefit and compensation limits applicable under federal tax law. The cost associated with the excess plan is determined using the same actuarial methods and assumptions as those used for our qualified pension plan. The assets for the excess plan aggregate \$345,000 and \$344,000 as of June 30, 2018 and December 31, 2017, respectively, and are recorded in other assets in our consolidated balance sheets (see NOTE 7 Fair Value Measurements).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest cost	\$ 214,000	\$ 206,000	\$ 428,000	\$ 412,000
Expected return on plan assets	(339,000)	(301,000)	(677,000)	(602,000)
Recognized net actuarial loss	41,000	51,000	82,000	102,000
	\$ (84,000)	\$ (44,000)	\$ (167,000)	\$ (88,000)

The net periodic pension benefit is included in other income in our consolidated statements of earnings (loss).

We contributed \$93,000 and \$154,000, and \$61,000 and \$111,000 to our defined benefit pension plans during the three and six-month periods ended June 30, 2018 and 2017, respectively. We expect to contribute \$336,000 to our defined benefit pension plans during the remainder of 2018.

We also maintain a non-elective, non-qualified supplemental executive retirement plan ( SERP ) which provides deferred compensation to certain highly compensated employees that approximates the value of benefits lost by the freezing of the pension plan which are not offset by our enhanced matching contribution in our 401(k) plan. The SERP is a discretionary defined contribution plan and contributions made to the SERP in any given year are not guaranteed and will be at the sole discretion of our Compensation and Stock Incentive Committee. During each of the three and six-month periods ended June 30, 2018 and 2017, we recorded expenses of \$30,000 and \$60,000, respectively, related to the SERP. During the three and six-month periods ended June 30, 2018 and 2017, we contributed \$0 and \$84,000, and \$0 and \$122,000 to the plan, respectively. The liability for SERP pension benefits was \$96,000 and \$120,000 as of June 30, 2018 and December 31, 2017, respectively, and is included in accrued liabilities in our consolidated balance sheets.

We maintain a defined contribution 401(k) plan which permits participation by substantially all employees. Our matching contributions to the 401(k) plan were \$220,000 and \$415,000, and \$223,000 and \$432,000 for the three and six-month periods ended June 30, 2018 and 2017, respectively.

#### NOTE 6 Stockholders Equity

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

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	Common Stock	Class A Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss
<b>Balance at December 31, 2017- as reported</b>	\$ 1,827	\$ 1,487	\$ 5,877	\$ 110,220	\$ (4,699)
Adoption of ASU 2014-09 (see NOTE 3)				(403)	
<b>Balance at December 31, 2017- revised</b>	1,827	1,487	5,877	109,817	(4,699)
Adoption of ASU 2016-01 (see NOTE 3)				34	(34)
Net loss				(120)	
Issuance of restricted stock awards, net of forfeitures	21		(21)		
Stock-based compensation			135		
Change in net actuarial loss and prior service cost, net of income tax expense of \$23					59
Repurchase and retirement of common stock	(7)		(67)		
<b>Balance at June 30, 2018</b>	\$ 1,841	\$ 1,487	\$ 5,924	\$ 109,731	\$ (4,674)

As of June 30, 2018 and December 31, 2017, accumulated other comprehensive loss consists of the following:

	June 30, 2018	December 31, 2017
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of \$3,129,000 and \$3,152,000, respectively	\$ (4,674,000)	\$ (4,733,000)
Accumulated unrealized gain on available-for-sale securities, net of income tax expense of \$23,000		34,000
Accumulated other comprehensive loss	\$ (4,674,000)	\$ (4,699,000)

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

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during the first six months of 2018 or 2017. At June 30, 2018, we had remaining repurchase authority of 1,653,333 shares. At present we are not permitted to make such purchases under our credit facility.

We have a stock incentive plan which provides for the grant of up to 2,000,000 shares of common stock to our officers and key employees through stock options and/or awards valued in whole or in part by reference to our common stock, such as nonvested restricted stock awards. Under the plan, nonvested restricted stock vests an aggregate of twenty percent each year beginning on the second anniversary date of the grant. The aggregate market value of the nonvested restricted stock at the date of issuance is being amortized on a straight-line basis over the six-year period. We granted 213,500 and 208,500 stock awards under this plan during the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, there were 911,278 shares available for granting options or stock awards.

During the six months ended June 30, 2018 and 2017, we purchased and retired 72,722 and 70,483 shares of our outstanding common stock for \$74,000 and \$74,000, 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 transferred to the employee in satisfaction of their tax liability. The surrender of these shares is treated by us as a purchase of the shares.

#### NOTE 7 Fair Value Measurements

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

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

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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).



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The following table summarizes the valuation of our financial instrument pricing levels as of June 30, 2018 and December 31, 2017:

	Total	Level 1	Level 2	Level 3
<b>June 30, 2018</b>				
Equity investments	\$ 345,000	\$ 345,000	\$	\$
<b>December 31, 2017</b>				
Equity investments	\$ 344,000	\$ 344,000	\$	\$

Our equity investments consist of mutual funds. These investments are included in other assets in our consolidated balance sheets. Gains and losses on our equity investments are as follows:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Net gains (losses) recognized during the period on equity investments	\$ 3,000	\$ (2,000)
Less: net gains recognized during the period on equity investments sold during the period	(1,000)	(4,000)
Unrealized gains (losses) recognized during the period on equity investments still held at period end	\$ 2,000	\$ (6,000)

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

At June 30, 2018 and December 31, 2017, there was \$18,000,000 and \$19,900,000, respectively, outstanding under our revolving credit agreement. The borrowings under our revolving credit agreement bear interest at the variable rate described in NOTE 4 – Credit Facility and therefore we believe approximate fair value.

### NOTE 8 - Related Party Transactions

During the three and six-month periods ended June 30, 2018 and 2017, we allocated costs of \$471,000 and \$885,000, and \$516,000 and \$969,000, 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 \$34,000 and \$140,000, and \$109,000 and \$140,000, respectively, to us for the three and six-month periods ended June 30, 2018 and 2017. The allocations were based on an analysis of each company's share of the costs. In connection with DVD's 2018 and 2017 spring NASCAR event weekends at Dover International Speedway, we provided certain services, primarily catering, for which DVD was invoiced \$391,000 and \$460,000 during the three and six-month periods ended June 30, 2018 and 2017, respectively. Additionally, DVD invoiced us \$115,000 and \$107,000 during the three and six-month periods ended June 30, 2018 and 2017, respectively, for tickets, their commission for suite catering and other services to the NASCAR events. As of June 30, 2018 and December 31, 2017, respectively, our consolidated balance sheets included \$19,000 and \$7,000 of receivables from DVD for the aforementioned items. We settled these items in July and January of 2018. 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 a trustee of the RMT Trust, our largest stockholder, and from certain shares as to which he has voting rights pursuant to a voting agreement with R. Randall Rollins, one of our directors. This means that Mr. Tippie has the ability to determine the outcome of our election of directors and to determine the outcome of many significant corporate transactions, many of which only require the approval of a majority of our voting power.

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

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

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

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

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

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

- Dover Downs Casino – a 165,000-square foot casino complex featuring popular table games, including craps, roulette and card games such as blackjack, Spanish 21, baccarat, 3-card and pai gow poker, the latest in slot machine offerings, multi-player electronic table games, a poker room, a Race & Sports Book operation, the Dover Downs Fire & Ice Lounge, the Festival Buffet, Frankie's Italian restaurant, as well as several bars, restaurants and six retail outlets;

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- Dover Downs Hotel and Conference Center a 500 room AAA Four Diamond hotel with a fine dining restaurant, full-service spa/salon, conference, banquet, ballroom and concert hall facilities; and
- Dover Downs Raceway a harness racing track with pari-mutuel wagering on live and simulcast horse races.

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

On May 14, 2018, a U.S. Supreme Court decision overturned the Professional and Amateur Sports Protection Act. As a result, on June 5, 2018 our Race & Sports Book operation began offering a full range of betting on professional and college sports, including single game wagering on a wide variety of sports, including football, baseball, basketball, boxing, mixed martial arts, hockey and soccer.

In June 2018, after several years of effort, legislation providing relief to the State's gaming industry was enacted. Senate Substitute No. 1 to Senate Bill 144, which passed with broad support in both the House and Senate, was signed by the Governor on June 30, 2018. Effective July 1, 2018, the Bill revises the State's share of gross table game revenues from 29% to 15.5%; eliminates the table game license fee for each video lottery agent, provided that the agent increase certain expenditures on marketing, wages and benefits; reduces the State's share of gross slot machine revenues by 1%, with a further 2% reduction possible, beginning July 1, 2019, for each video lottery agent, provided that the agent make certain qualified capital expenditures; and increases purses to horsemen by 0.6% (over two years). The Bill also removes the prohibition against video lottery agents operating on Christmas or Easter.

As previously announced on July 22, 2018, we entered into a definitive merger agreement with Twin River Worldwide Holdings, Inc. The merger contemplates that our stockholders will exchange their stock for Twin River common shares representing 7.225% of the equity in the combined company at closing. Our Common Stock and Class A Common Stock will be treated equally in the merger. The transaction is intended to qualify as a tax-free reorganization (except for cash paid in lieu of fractional shares). We anticipate the transaction will close in early 2019, subject to regulatory approvals and customary closing conditions.

Approximately 78% of our revenue is gaming revenue. Several factors contribute to the win for any gaming company, including, but not limited to:

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

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

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

### Results of Operations

*Three Months Ended June 30, 2018 vs. Three Months Ended June 30, 2017*

Gaming revenues increased by \$668,000, or 2.0%, to \$33,895,000 in the second quarter of 2018 primarily as a result of higher slot machine play and increased revenues from table games and sports wagering.

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Other operating revenues were \$10,238,000 in the second quarter of 2018 as compared to \$9,914,000 in the second quarter of 2017. Rooms revenue increased \$162,000 to \$3,238,000 in the second quarter of 2018 from \$3,076,000 in the second quarter of 2017 due to higher convention and tour & travel sales. Food and beverage revenues increased \$188,000 to \$5,668,000 in the second quarter of 2018 from \$5,480,000 in the second quarter of 2017 due primarily to higher sales in our Festival Buffet and Garden Café. Partially offsetting these increases was a decrease in banquet sales.

Gaming expenses increased by \$615,000, or 1.9%, primarily as a result of the higher gaming revenues.

Other operating expenses increased to \$7,655,000 in the second quarter of 2018 from \$7,425,000 in the second quarter of 2017, primarily as a result of increased food and beverage expenses as a result of the higher revenues.

General and administrative expenses remained consistent at \$1,342,000 in the second quarter of 2018 as compared to \$1,333,000 in the second quarter of 2017.

Depreciation expense decreased slightly to \$2,050,000 in the second quarter of 2018 from \$2,086,000 in the second quarter of 2017.

Interest expense was \$199,000 in the second quarter of 2018 as compared to \$208,000 in the second quarter of 2017. In 2018, lower outstanding borrowings were partially offset by slightly higher interest rates.

Our effective income tax rate was 36.5% in the second quarter of 2018 as compared to (83.3%) in the second quarter of 2017. The 2018 rate was impacted by the passage of the Tax Cuts and Jobs Act in December of 2017 which lowered our federal income tax rate to 21% beginning in 2018. The effective tax rate in the second quarter of 2017 was impacted by a federal income tax credit for payroll taxes incurred on customer tips paid to our employees. The 2017 rate was impacted by a larger extent due to the lower pre-tax earnings.

### *Six Months Ended June 30, 2018 vs. Six Months Ended June 30, 2017*

Gaming revenues decreased by \$504,000, or 0.7%, to \$68,029,000 in the first six months of 2018 primarily as a result of a decline in horse racing commissions and a slightly higher amount of gaming win allocated to complimentary. Partially offsetting these decreases was an increase in revenues from table games and sports wagering.

Other operating revenues were \$19,263,000 in the first six months of 2018 as compared to \$18,620,000 in the first six months of 2017. Rooms revenue increased \$225,000 to \$5,457,000 in the first six months of 2018 from \$5,232,000 in the first six months of 2017 due to higher convention and tour & travel sales. Food and beverage revenues increased \$600,000 to \$11,255,000 in the first six months of 2018 from \$10,655,000 in the first six months of 2017 due primarily to higher sales in our Festival Buffet, Frankie's Italian restaurant and our Garden Café. Partially offsetting these increases were decreases in other miscellaneous operating revenues.

Gaming expenses decreased by \$416,000, or 0.6%, primarily as a result of the lower gaming revenues.

Other operating expenses increased to \$14,689,000 in the first six months of 2018 from \$14,262,000 in the first six months of 2017, primarily as a result of increased food and beverage expenses as a result of the higher revenues.

General and administrative expenses remained consistent at \$2,727,000 in the first six months of 2018 as compared to \$2,708,000 in the first six months of 2017.

Depreciation expense increased to \$4,190,000 in the first six months of 2018 from \$4,032,000 in the first six months of 2017 as a result of capital spending.

Interest expense was \$408,000 in the first six months of 2018 as compared to \$417,000 in the first six months of 2017. In 2018, lower outstanding borrowings were partially offset by slightly higher interest rates.



Our effective income tax rate was (0%) in the first six months of 2018 as compared to (2.5%) in the first six months of 2017. The 2018 rate was impacted by the passage of the Tax Cuts and Jobs Act in December of 2017 which lowered our federal income tax rate to 21% beginning in 2018. The 2018 and 2017 rates were impacted by the income tax effects derived from the vesting of restricted stock awards during the first quarter of 2018 and 2017. Additionally, the effective tax rate in the first six months of 2017 was impacted by a federal income tax credit for payroll taxes incurred on customer tips paid to our employees. The 2018 rate was impacted by a larger extent due to the small pre-tax loss.

### **Liquidity and Capital Resources**

Net cash provided by operating activities was \$3,493,000 in the first six months of 2018 compared to \$2,291,000 in the first six months of 2017. The increase was primarily due to the timing of payments to the Delaware State Lottery Office for its portion of the slot win and the timing of payments to vendors.

Net cash used in investing activities was \$1,396,000 in the first six months of 2018 compared to \$1,198,000 in the first six months of 2017 and was primarily related to capital improvements in both periods. Capital expenditures in the first six months of 2018 related primarily to hotel room renovations, facility and equipment and information systems upgrades. Capital expenditures in the first six months of 2017 related primarily to facility and equipment and information systems upgrades.

Net cash used in financing activities was \$1,974,000 in the first six months of 2018 compared to \$2,324,000 in the first six months of 2017. During the first six months of 2018, we had net repayments of \$1,900,000 on our credit facility compared to \$2,250,000 during the first six months of 2017. We repurchased and retired \$74,000 of our outstanding common stock during the first six months of 2018 and 2017. These purchases were made from employees in connection with the vesting of restricted stock awards under our stock incentive plan.

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during the first six months of 2018 or 2017. At June 30, 2018, we had remaining repurchase authority of 1,653,333 shares. At present we are not permitted to make such purchases under our credit facility.

Based on current business conditions, we expect to make capital expenditures of approximately \$2,000,000 during the remainder of 2018. Additionally, we expect to contribute \$336,000 to our defined benefit pension plans during the remainder of 2018.

At June 30, 2018, we had a \$32,500,000 credit agreement with our bank group. The credit facility expires on September 30, 2018. Interest is based upon LIBOR plus a margin that varies between 150 and 350 basis points (175 basis points at June 30, 2018) depending on the leverage ratio. The credit facility is secured by a mortgage on and security interest in all real and personal property owned by our wholly owned subsidiary Dover Downs, Inc. The credit facility contains certain covenants including maximum ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the leverage ratio), and a minimum fixed charge coverage ratio. Material adverse changes in our results of operations could impact our ability to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause and prohibits the payment of dividends. The credit facility provides for seasonal funding needs, capital improvements and other general corporate purposes. At June 30, 2018, there was \$18,000,000 outstanding at an interest rate of 3.84% and \$14,500,000 was available pursuant to the facility. Additionally, we were in compliance with all terms of the facility at June 30, 2018 and we expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods through September 30, 2018, the expiration date of the facility.



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

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

In recent years, the mid-Atlantic region has experienced a significant expansion in gaming venues and gaming offerings. These new venues including several in Maryland have had a significant adverse effect on our visitation numbers, our revenues and our profitability. Management has estimated that approximately 27% of our gaming win comes from Maryland patrons and approximately 59% of our Capital Club® member gaming win comes from out-of-state patrons.

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

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

In June 2018, after several years of effort, legislation providing relief to the State's gaming industry was enacted. Senate Substitute No. 1 to Senate Bill 144, which passed with broad support in both the House and Senate, was signed by the Governor on June 30, 2018. Effective July 1, 2018, the Bill revises the State's share of gross table game revenues from 29% to 15.5%; eliminates the table game license fee for each video lottery agent, provided that the agent increase certain expenditures on marketing, wages and benefits; reduces the State's share of gross slot machine revenues by 1%, with a further 2% reduction possible, beginning July 1, 2019, for each video lottery agent, provided that the agent make certain qualified capital expenditures; and increases purses to horsemen by 0.6% (over two years). The Bill also removes the prohibition against video lottery agents operating on Christmas or Easter.



## Contractual Obligations

At June 30, 2018, we had the following contractual obligations:

			Payments Due by Period				
	Total	2018	2019	2020	2021	2022	Thereafter
Revolving line of credit(a)	\$ 18,000,000	\$ 18,000,000	\$		\$		\$
Estimated interest payments on revolving line of credit(b)	173,000	173,000					
Defined benefit pension plan contributions	336,000	336,000					
	\$ 18,509,000	\$ 18,509,000	\$		\$		\$

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

(b) The future interest payments on our revolving credit agreement were estimated using the current outstanding principal as of June 30, 2018 and current interest rates through the expiration date.

## Related Party Transactions

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

## Critical Accounting Policies

For a summary of our critical accounting policies and the means by which we develop estimates thereon, see Part II - Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations in our 2017 Annual Report on Form 10-K. There have been no material changes to our critical accounting policies from those included in our 2017 Annual Report on Form 10-K.

## Recent Accounting Pronouncements

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

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

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

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

Not applicable.

**Item 4.**                    **Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

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

Based on their evaluation as of June 30, 2018, 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, 2018 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**

Not applicable.

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

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during the first six months of 2018. At June 30, 2018, we had remaining repurchase authority of 1,653,333 shares. At present we are not permitted to make such purchases under our credit facility.

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

None.

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

Not applicable.

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

None.

**Item 6.**                    **Exhibits**

- 2.1    Transaction Agreement, dated as of July 22, 2018, by and among Dover Downs Gaming & Entertainment, Inc., Twin River Worldwide Holdings, Inc. and Double Acquisition Corp. (incorporated herein by reference to Exhibit 2.1 to the Form 8-K dated July 22, 2018)
- 31.1   Certification of Chief Executive Officer pursuant to Rule 13a-14(a)
- 31.2   Certification of Chief Financial Officer pursuant to Rule 13a-14(a)



- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from the Dover Downs Gaming & Entertainment, Inc. quarterly report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) for the three and six months ended June 30, 2018 and 2017; (ii) Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017; (iii) Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017; and (iv) Notes to the Consolidated Financial Statements.

**Signatures**

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

DATED: August 2, 2018

Dover Downs Gaming & Entertainment, Inc.  
Registrant

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

/s/ Timothy R. Horne  
Timothy R. Horne  
*Senior Vice President-Finance, Treasurer, Chief Financial Officer and Director*  
(Principal Financial and Accounting Officer)