

DOVER MOTORSPORTS INC  
Form 10-Q  
May 10, 2013

**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 March 31, 2013**

**Commission file number 1-11929**

**Dover Motorsports, Inc.**

(Exact name of registrant as specified in its charter)

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

**51-0357525**  
(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

**(302) 883-6500**

(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 April 30, 2013, the number of shares of each class of the registrant's common stock outstanding is as follows:

Common Stock -	18,481,848 shares
Class A Common Stock -	18,510,975 shares

**Part I Financial Information****Item 1. Financial Statements**

**DOVER MOTORSPORTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE LOSS**

**In Thousands, Except Per Share Amounts**

**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>		
Event-related	\$ 109	\$ 119
Other	7	7
	116	126
<b>Expenses:</b>		
Operating and marketing	1,054	1,100
General and administrative	1,911	1,970
Depreciation	825	837
	3,790	3,907
<b>Operating loss</b>	<b>(3,674)</b>	<b>(3,781)</b>
Interest expense, net	(275)	(401)
Provision for contingent obligation	22	40
Other income	139	
<b>Loss before income taxes</b>	<b>(3,788)</b>	<b>(4,142)</b>
<b>Income tax benefit</b>	<b>1,509</b>	<b>1,519</b>
<b>Net loss</b>	<b>(2,279)</b>	<b>(2,623)</b>
Unrealized gain on available-for-sale securities, net of income taxes	17	23
Change in net actuarial loss and prior service cost, net of income taxes	14	12
<b>Comprehensive loss</b>	<b>\$ (2,248)</b>	<b>\$ (2,588)</b>
<b>Net loss per common share:</b>		
Basic	\$ (0.06)	\$ (0.07)
Diluted	\$ (0.06)	\$ (0.07)

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



## DOVER MOTORSPORTS, INC.

## CONSOLIDATED BALANCE SHEETS

In Thousands, Except Share and Per Share Amounts

(Unaudited)

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash	\$ 42	\$ 15
Accounts receivable	1,736	224
Inventories	125	124
Prepaid expenses and other	1,578	1,222
Prepaid income taxes	318	
Deferred income taxes	78	78
Total current assets	3,877	1,663
Property and equipment, net	92,123	92,896
Other assets	719	738
Deferred income taxes	459	490
Total assets	\$ 97,178	\$ 95,787
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 281	\$ 145
Accrued liabilities	1,886	2,903
Income taxes payable		132
Deferred revenue	6,945	2,719
Total current liabilities	9,112	5,899
Revolving line of credit	21,200	19,700
Liability for pension benefits	2,997	3,065
Other liabilities	1,912	1,934
Deferred income taxes	16,075	17,096
Total liabilities	51,296	47,694
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; 75,000,000 shares authorized; shares issued and outstanding: 18,481,848 and 18,362,798, respectively	1,848	1,836
Class A common stock, \$0.10 par value; 55,000,000 shares authorized; shares issued and outstanding: 18,510,975 and 18,510,975, respectively	1,851	1,851
Additional paid-in capital	102,191	102,166
Accumulated deficit	(57,535)	(55,256)
Accumulated other comprehensive loss	(2,473)	(2,504)
Total stockholders' equity	45,882	48,093
Total liabilities and stockholders' equity	\$ 97,178	\$ 95,787

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



**DOVER MOTORSPORTS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**In Thousands**

**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Operating activities:		
Net loss	\$ (2,279)	\$ (2,623)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	825	837
Amortization of credit facility fees	57	55
Stock-based compensation	98	91
Deferred income taxes	(1,196)	(1,189)
Provision for contingent obligation	(22)	(40)
Gain on sale of property and equipment	(138)	
Changes in assets and liabilities:		
Accounts receivable	(1,512)	(2,580)
Inventories	(1)	
Prepaid expenses and other	(365)	(191)
Prepaid income taxes/income taxes payable	(266)	(475)
Accounts payable	136	79
Accrued liabilities	(1,017)	(818)
Payable to/receivable from Dover Downs Gaming & Entertainment, Inc.		12
Deferred revenue	4,226	6,032
Other liabilities	(44)	(36)
Net cash used in operating activities	(1,498)	(846)
Investing activities:		
Capital expenditures	(52)	(90)
Proceeds from sale of property and equipment	138	
Net cash provided by (used in) investing activities	86	(90)
Financing activities:		
Borrowings from revolving line of credit	2,840	2,260
Repayments on revolving line of credit	(1,340)	(1,300)
Repurchase of common stock	(61)	(27)
Net cash provided by financing activities	1,439	933
Net increase (decrease) in cash	27	(3)
Cash, beginning of period	15	15
Cash, end of period	\$ 42	\$ 12
Supplemental information:		
Interest paid	\$ 223	\$ 354
Income tax payments	\$	\$ 146

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





**DOVER MOTORSPORTS, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 Basis of Presentation**

References in this document to we, us and our mean Dover Motorsports, 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 8, 2013. 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 months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 due to the seasonal nature of our business.

**NOTE 2 Business Operations**

Dover Motorsports, Inc. is a public holding company that is a leading marketer and promoter of motorsports entertainment in the United States. Through our subsidiaries, we own and operate Dover International Speedway® in Dover, Delaware and Nashville Superspeedway® near Nashville, Tennessee. Our Dover facility is scheduled to promote the following six events during 2013, all of which will be under the auspices of the premier sanctioning body in motorsports - the National Association for Stock Car Auto Racing ( NASCAR ):

- 2 NASCAR Sprint Cup Series events;
- 2 NASCAR Nationwide Series events;
- 1 NASCAR Camping World Truck Series event; and
- 1 NASCAR K&N Pro Series East event.

Total revenues from our motorsports events were approximately 99% and 90% of total revenues for 2012 and 2011, respectively.

On July 20-22, 2012, the inaugural Firefly Music Festival ( Firefly ) was held on our property in Dover, DE for which we received a fee for the use of our property and a portion of the concession sales. The three day event was promoted by Red Frog Events and featured more than 40

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musical acts. The Firefly event is scheduled to return June 21-23, 2013.

Nashville Superspeedway no longer promotes NASCAR events and did not seek sanction agreements from NASCAR for 2013. We continue to use the track for motorsports race team testing and are currently evaluating all of our options for the facility. In 2011 we recorded a \$2,250,000 provision for contingent obligation reflecting the present value of the estimated portion of the Wilson County bonds debt service that may not be covered by the projected sales and incremental property taxes from the facility (see NOTE 9 Commitments and Contingencies for further discussion). Due to changing interest rates, the provision for contingent obligation decreased by \$22,000 and \$35,000, net, in the first three months of 2013 and 2012, respectively, and is \$1,912,000 at March 31, 2013.

**NOTE 3 Summary of Significant Accounting Policies**

*Basis of consolidation and presentation* The accompanying consolidated financial statements include the accounts of Dover Motorsports, Inc. and our 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 earnings (loss). See NOTE 5 Pension Plans, NOTE 6 Stockholders' Equity and NOTE 7 Fair Value Measurements 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 \$46,176,000 and \$45,352,000 as of March 31, 2013 and December 31, 2012, respectively.

*Impairment of long-lived assets* Long-lived assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. Generally, fair value is determined using valuation techniques such as the comparable sales approach. Historically the impairment assessment for track facilities has also considered the cost approach valuation technique, which gives specific consideration to the value of the land plus contributory value to the improvements.

*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. We record a valuation allowance to reduce our deferred tax assets when uncertainty regarding their realizability exists. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

We file income tax returns with the Internal Revenue Service and the states in which we conduct business. We have identified the U.S. federal and state of Delaware as our major tax jurisdictions. As of March 31, 2013, tax years after 2008 remain open to examination for federal and Delaware income tax purposes.

*Revenue recognition* We classify our revenues as admissions, event-related, broadcasting and other. Admissions' revenue includes ticket sales for all of our events. Event-related' revenue includes amounts received from sponsorship fees; luxury suite rentals; hospitality tent rentals and catering; concessions and souvenir sales and vendor commissions for the right to sell concessions and souvenirs at our facilities; sales of programs; track rentals and other event-related revenues. Broadcasting' revenue includes rights fees obtained for television and radio broadcasts of events held at our speedways and any ancillary media rights fees.

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Revenues pertaining to specific events are deferred until the event is held. Concession and souvenir revenues are recorded at the time of sale. Revenues and related expenses from barter transactions in which we provide advertising or other goods or services in exchange for sponsorships of motorsports events are recorded at fair value. There was no revenue recorded from barter transactions for the three months ended March 31, 2013 or 2012.

Under the terms of our sanction agreements, NASCAR retains 10% of the gross broadcast rights fees allocated to each NASCAR-sanctioned event as a component of its sanction fee. The remaining 90% is recorded as revenue. The event promoter is required to pay 25% of the gross broadcast rights fees to the event as part of the awards to the competitors, which we record as operating expenses.

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*Expense recognition* Certain direct expenses pertaining to specific events, including prize and point fund monies and sanction fees paid to various sanctioning bodies, including NASCAR, marketing and other expenses associated with the promotion of our racing events are deferred until the event is held, at which point they are expensed.

The cost of non-event related advertising, promotion and marketing programs is expensed as incurred. We did not incur any advertising expenses for the three months ended March 31, 2013 or 2012.

*Net 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 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):

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net loss per common share basic:		
Net loss	\$ (2,279)	\$ (2,623)
Allocation to nonvested restricted stock awards		
Net loss available to common stockholders	\$ (2,279)	\$ (2,623)
Weighted-average shares outstanding	36,397	36,297
Net loss per common share basic	\$ (0.06)	\$ (0.07)
Net loss per common share diluted:		
Net loss	\$ (2,279)	\$ (2,623)
Allocation to nonvested restricted stock awards		
Net loss available to common stockholders	\$ (2,279)	\$ (2,623)
Weighted-average shares outstanding	36,397	36,297
Dilutive stock options		
Weighted-average shares and dilutive shares outstanding	36,397	36,297
Net loss per common share diluted	\$ (0.06)	\$ (0.07)

There were no options outstanding during the three months ended March 31, 2013 or 2012.

*Accounting for stock-based compensation* We recorded total stock-based compensation expense for our restricted stock awards of \$98,000 and \$91,000 as general and administrative expenses for the three months ended March 31, 2013 and 2012, respectively. We recorded income tax expense of \$22,000 and \$95,000 for the three months ended March 31, 2013 and 2012, *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

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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.

**NOTE 4 Long-Term Debt**

At March 31, 2013, Dover Motorsports, Inc. and its wholly owned subsidiaries Dover International Speedway, Inc. and Nashville Speedway, USA, Inc., as co-borrowers, had a \$55,000,000 secured credit agreement with a bank group. There was \$21,200,000 outstanding under the credit facility at March 31, 2013, at an interest rate of 2.20%. The facility was to expire April 12, 2014. The credit facility provides for seasonal funding needs, capital improvements, letter of credit requirements and other general corporate purposes. Interest is based upon LIBOR plus a margin that varies between 200 and 325 basis points depending on the leverage ratio (200 basis points at March 31, 2013). The terms of the credit facility contain certain covenants including minimum interest coverage and maximum funded debt to earnings before interest, taxes, depreciation and amortization ( leverage ratio ). Material adverse changes in our results of operations could impact our ability to maintain financial ratios necessary to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause and provides the lenders with a first lien on all of our assets. The credit agreement allows us to repurchase shares of our common stock in the open market and/or pay dividends with respect to our common stock for an aggregate amount of not more than \$2,500,000 in any fiscal year. The credit facility also provides that if we default under any other loan agreement, that would be a default under this facility. At March 31, 2013, we were in compliance with the terms of the credit facility. After consideration of stand-by letters of credit outstanding, the remaining maximum borrowings available pursuant to the credit facility were \$13,871,000 at March 31, 2013.

On April 29, 2013, we modified our secured credit agreement with our bank group. The credit facility was modified to: extend the maturity date to July 31, 2017; reduce the maximum borrowing limit to \$50,000,000 as of April 29, 2013, to \$42,500,000 as of December 31, 2013 and to \$35,000,000 as of December 31, 2014; modify the leverage ratio; replace the interest expense coverage ratio with a fixed charge coverage ratio; permit stock repurchases and the payment of dividends; and provide that we may elect to enter into a negative pledge with the bank group in exchange for the release of the security interest in the collateral securing the agreement. Additionally, interest subsequent to the modification will be based upon LIBOR plus a margin that varies between 125 and 175 basis points depending on the leverage ratio. In the event we elect to enter into the negative pledge, interest will be based upon LIBOR plus a margin that varies between 150 and 200 basis points depending on the leverage ratio. We expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods during the next twelve months.

**NOTE 5 Pension Plans**

We maintain a non-contributory tax qualified defined benefit pension plan that has been frozen since July 2011. All of our full time employees were eligible to participate in the qualified plan. Benefits provided by our qualified pension plan were based on years of service and employees remuneration over their employment period. Pension costs are funded in accordance with the provisions of the Internal Revenue Code. 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 \$710,000 and \$680,000 as of March 31, 2013 and December 31, 2012, respectively, and are recorded in other assets in our consolidated balance sheets (see NOTE 7 Fair Value Measurements).

On June 15, 2011, we decided to freeze participation and benefit accruals under our pension plans, primarily to reduce some of the impact on earnings and volatility in cash flows that can accompany the maintenance of a defined benefit plan. The freeze was effective July 31, 2011. 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. Participants as of July 31, 2011 continue to earn vesting credit with respect to their frozen accrued benefits as they continue to work.

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Effective December 1, 2012, we created a new non-elective, non-qualified supplemental executive retirement plan ( SERP ) in connection with the freezing of our pension plan. Its purpose is to provide 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 contributions 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. In the first three months of 2013, we recorded an expense of \$15,000 related to the SERP and contributed \$55,000 to the plan. The liability for pension benefits was \$20,000 and \$60,000 as of March 31, 2013 and December 31, 2012, respectively.

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

	Three Months Ended March 31,	
	2013	2012
Interest cost	\$ 113,000	\$ 114,000
Expected return on plan assets	(138,000)	(127,000)
Recognized net actuarial loss	24,000	20,000
Net amortization	\$ (1,000)	\$ 7,000

We contributed \$56,000 to our defined benefit pension plans during the three months ended March 31, 2012. We do not expect to make any contributions to our defined benefit pension plans in 2013.

We also maintain a defined contribution 401(k) plan that permits participation by substantially all employees. Our matching contributions to the 401(k) plan were \$21,000 and \$26,000 in the first three months of 2013 and 2012, respectively.

#### NOTE 6 Stockholders Equity

Changes in the components of stockholders equity are as follows (in thousands):

	Common Stock	Class A Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss
<b>Balance at December 31, 2012</b>	\$ 1,836	\$ 1,851	\$ 102,166	\$ (55,256)	\$ (2,504)
Net loss				(2,279)	
Issuance of restricted stock awards, net of forfeitures	15		(15)		
Stock-based compensation			98		
Repurchase and retirement of common stock	(3)		(58)		
Unrealized gain on available-for-sale securities, net of income tax expense of \$12					17
Change in net actuarial loss and prior service cost, net of income tax expense of \$10					14
<b>Balance at March 31, 2013</b>	\$ 1,848	\$ 1,851	\$ 102,191	\$ (57,535)	\$ (2,473)

As of March 31, 2013 and December 31, 2012, accumulated other comprehensive loss, net of income taxes, consists of the following:

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	March 31, 2013	December 31, 2012
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of \$1,722,000 and \$1,732,000, respectively	\$ (2,509,000)	\$ (2,523,000)
Accumulated unrealized gain on available-for-sale securities, net of income tax expense of \$27,000 and \$15,000, respectively	36,000	19,000
Accumulated other comprehensive loss	\$ (2,473,000)	\$ (2,504,000)

Our previous debt agreement with our bank group allowed us to pay dividends and repurchase shares of our common stock, for an aggregate amount of not more than \$2,500,000 in any fiscal year. The April 29, 2013 amendment to our credit facility removes the \$2,500,000 restriction.

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On July 28, 2004, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during the three months ended March 31, 2013 or 2012. At March 31, 2013, we had remaining repurchase authority of 1,634,607 shares.

We have a stock incentive plan which provides for the grant of up to 1,500,000 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. As of March 31, 2013, there were 381,774 shares available for granting options or stock awards.

During the three months ended March 31, 2013 and 2012, we purchased and retired 33,950 and 23,779 shares of our outstanding common stock at an average purchase price of \$1.80 and \$1.16 per share, respectively. These purchases were made from employees in connection with the vesting of restricted stock awards under our 2004 Stock Incentive Plan and were not pursuant to the aforementioned repurchase authorization. Since the vesting of a restricted stock award is a taxable event to our employees for which income tax withholding is required, the plan allows employees to surrender to us some of the shares that would otherwise have vested in satisfaction of their tax liability. The surrender of these shares is treated by us as a purchase of the shares.

### NOTE 7 Fair Value Measurements

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

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

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

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

The following table summarizes the valuation of our financial instrument pricing levels as of March 31, 2013 and December 31, 2012:

	Total		Level 1		Level 2		Level 3	
<b>March 31, 2013</b>								
Available-for-sale securities	\$	710,000	\$	710,000	\$		\$	

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### December 31, 2012

Available-for-sale securities	\$	680,000	\$	680,000	\$	\$
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Our investments in available-for-sale securities consist of mutual funds. These investments are included in other assets on our consolidated balance sheets.

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

At March 31, 2013 and December 31, 2012, there was \$21,200,000 and \$19,700,000, respectively, outstanding under our revolving credit agreement. The borrowings under our revolving credit agreement bear interest at the variable rate described in NOTE 4 Long-Term Debt and therefore we believe approximate fair value.

**NOTE 8 Related Party Transactions**

During the three months ended March 31, 2013 and 2012, Dover Downs Gaming & Entertainment, Inc. ( Gaming ), a company related through common ownership, allocated costs of \$427,000 and \$421,000, respectively, to us for certain administrative and operating services, including leased space. We allocated certain administrative and operating service costs of \$94,000 and \$83,000, respectively, to Gaming for the three months ended March 31, 2013 and 2012. The allocations were based on an analysis of each company's share of the costs. In connection with our NASCAR event weekend at Dover International Speedway, we invoiced Gaming \$96,000 for the three months ended March 31, 2012 for a skybox suite, tickets, display space and other services to the events. As of March 31, 2013 and December 31, 2012, there were no balances due between us and Gaming. 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 the spin-off of Gaming from our company 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 Gaming to ensure that the real property holdings of each company was aligned with its past uses and future business needs. During its harness racing season, Gaming has historically used the 5/8-mile harness racing track that is located on our property and is on the inside of our one-mile motorsports superspeedway. In order to continue this historic use, we granted a perpetual easement to the harness track to Gaming at the time of the spin-off. This perpetual easement allows Gaming 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 Gaming 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 Gaming relative to our respective Dover, Delaware facilities. We pay rent to Gaming for the lease of our principal executive office space. Gaming also allows us to use its indoor grandstands in connection with our two annual motorsports weekends. This occasional grandstand use is not material to us and Gaming does not assess rent for it; Gaming may also discontinue our use at its 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 and from his status as trustee of the RMT Trust, our largest stockholder. This means that Mr. Tippie has the ability to determine the outcome of the 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, Richard K. Struthers and Henry B. Tippie are all Directors of Dover Motorsports, Inc. and Gaming. 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 Gaming.

**NOTE 9 Commitments and Contingencies**

In September 1999, the Sports Authority of the County of Wilson (Tennessee) issued \$25,900,000 in Variable Rate Tax Exempt Infrastructure Revenue Bonds, Series 1999, to acquire, construct and develop certain public infrastructure improvements which benefit the operation of Nashville Superspeedway, of which \$19,600,000 was outstanding at March 31, 2013. Annual principal payments range from \$800,000 in

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September 2013 to \$1,600,000 in 2029 and are payable solely from sales taxes and incremental property taxes generated from the facility. These bonds are direct obligations of the Sports Authority and therefore have historically not been required to be recorded on our consolidated balance sheet. If the sales taxes and incremental property taxes ( applicable taxes ) are insufficient for the payment of principal and interest on the bonds, we would become responsible for the difference. In the event we were unable to make the payments, they would be made pursuant to a \$19,929,000 irrevocable direct-pay letter of credit issued by our bank group. We are exposed to fluctuations in interest rates for these bonds.

As of March 31, 2013 and December 31, 2012, \$2,722,000 and \$1,758,000, respectively, was available in the sales and incremental property tax fund maintained by the Sports Authority to pay the remaining principal and interest due under the bonds. During 2012, we paid \$957,000 into the sales and incremental property tax fund and \$733,000 was deducted from the fund for principal and interest payments. If we fail to maintain the letter of credit that secures the bonds or we allow an uncured event of default to exist under our reimbursement agreement relative to the letter of credit, the bonds would be immediately redeemable.

Nashville Superspeedway no longer promotes NASCAR events and did not seek sanction agreements from NASCAR for 2013. Since the facility no longer generates sales taxes from NASCAR sanctioned events, we estimated that a portion of the debt service may not be covered by applicable taxes. As a result, we recorded a \$2,250,000 provision for contingent obligation in 2011 reflecting the present value of the estimated portion of the Wilson County bonds debt service that may not be covered by applicable taxes from the facility. Due to changing interest rates, the provision for contingent obligation decreased by \$22,000 and \$35,000, net, in the first three months of 2013 and 2012, respectively, and is \$1,912,000 at March 31, 2013. An increase in interest rates would result in an increase in the portion of debt service not covered by applicable taxes and therefore an increase in our liability.

We are also 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.

We classify our revenues as admissions, event-related, broadcasting and other. Admissions includes ticket sales for all of our events.

Event-related revenue includes amounts received from sponsorship fees; luxury suite rentals; hospitality tent rentals and catering; concessions and souvenir sales and vendor commissions for the right to sell concessions and souvenirs at our facilities; sales of programs; track rentals and other event-related revenues. Broadcasting revenue includes rights fees obtained for television and radio broadcasts of events held at our speedway and any ancillary media rights fees.

Revenues pertaining to specific events are deferred until the event is held. Concession revenue from concession stand sales and sales of souvenirs are recorded at the time of sale. Revenues and related expenses from barter transactions in which we provide advertising or other goods or services in exchange for sponsorships of motorsports events are recorded at fair value. There was no revenue recorded from barter transactions for the three months ended March 31, 2013 or 2012.

Expenses that are not directly related to a specific event are recorded as incurred. Expenses that specifically relate to an event are deferred until the event is held, at which time they are expensed. These expenses include prize and point fund monies and sanction fees paid to various sanctioning bodies, including NASCAR, marketing and other expenses associated with the promotion of our racing events.

### **Results of Operations**

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*Three Months Ended March 31, 2013 vs. Three Months Ended March 31, 2012*

We promoted no racing events during the first quarter of 2013 or 2012; therefore, our revenues were minimal.

Operating and marketing expenses decreased slightly to \$1,054,000 in the first quarter of 2013 as compared to \$1,100,000 in the first quarter of 2012.



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General and administrative expenses decreased slightly to \$1,911,000 in the first quarter of 2013 as compared to \$1,970,000 in the first quarter of 2012.

Depreciation expense remained consistent at \$825,000 in the first quarter of 2013 as compared to \$837,000 in the first quarter of 2012.

Net interest expense was \$275,000 in the first quarter of 2013 as compared to \$401,000 in the first quarter of 2012. The decrease was due primarily to lower average borrowings and lower interest rates during the first quarter of 2013.

Our effective income tax rates for the first quarters of 2013 and 2012 were 39.8% and 36.7%, respectively.

### **Liquidity and Capital Resources**

Our operations and cash flows from operating activities are seasonal in nature with all of our motorsports events occurring during the second and third quarters this year.

Net cash used in operating activities was \$1,498,000 for the three months ended March 31, 2013 as compared to \$846,000 for the three months ended March 31, 2012. Due to the seasonal nature of our business, we reported a loss before income taxes in the first quarter of 2013 and 2012. The increase in cash used in operating activities in 2013 was primarily due to lower receipts from advance ticket sales and the timing of receipts for corporate sponsorships.

Net cash provided by investing activities was \$86,000 for the three months ended March 31, 2013 as compared to net cash used in investing activities of \$90,000 for the three months ended March 31, 2012. We sold portable grandstand seating that we no longer used in the first quarter of 2013 that resulted in proceeds of \$138,000.

Net cash provided by financing activities was \$1,439,000 for the three months ended March 31, 2013 as compared to \$933,000 for the three months ended March 31, 2012. We had net borrowings on our outstanding line of credit of \$1,500,000 in the first three months of 2013 as compared to \$960,000 in the first three months of 2012.

At March 31, 2013, Dover Motorsports, Inc. and its wholly owned subsidiaries Dover International Speedway, Inc. and Nashville Speedway, USA, Inc., as co-borrowers, had a \$55,000,000 secured credit agreement with a bank group. There was \$21,200,000 outstanding under the credit facility at March 31, 2013, at an interest rate of 2.20%. The facility was to expire April 12, 2014. The credit facility provides for seasonal funding needs, capital improvements, letter of credit requirements and other general corporate purposes. Interest is based upon LIBOR plus a margin that varies between 200 and 325 basis points depending on the leverage ratio (200 basis points at March 31, 2013). The terms of the credit facility contain certain covenants including minimum interest coverage and maximum funded debt to earnings before interest, taxes, depreciation and amortization ( leverage ratio ). Material adverse changes in our results of operations could impact our ability to maintain financial ratios necessary to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause and provides the lenders with a first lien on all of our assets. The credit agreement allows us to repurchase shares of our common stock in the open market

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and/or pay dividends with respect to our common stock for an aggregate amount of not more than \$2,500,000 in any fiscal year. The credit facility also provides that if we default under any other loan agreement, that would be a default under this facility. At March 31, 2013, we were in compliance with the terms of the credit facility. After consideration of stand-by letters of credit outstanding, the remaining maximum borrowings available pursuant to the credit facility were \$13,871,000 at March 31, 2013.

On April 29, 2013, we modified our secured credit agreement with our bank group. The credit facility was modified to: extend the maturity date to July 31, 2017; reduce the maximum borrowing limit to \$50,000,000 as of April 29, 2013, to \$42,500,000 as of December 31, 2013 and to \$35,000,000 as of December 31, 2014; modify the leverage ratio; replace the interest expense coverage ratio with a fixed charge coverage ratio; permit stock repurchases and the payment of dividends; and provide that we may elect to enter into a negative pledge with the bank group in exchange for the release of the security interest in the collateral securing the agreement. Additionally, interest subsequent to the modification will be based upon LIBOR plus a margin that varies between 125 and 175 basis points depending on the leverage ratio. In the event we elect to enter into the negative pledge, interest will be based upon LIBOR plus a margin that varies between 150 and 200 basis points depending on the leverage ratio. We expect

to be in compliance with the financial covenants, and all other covenants, for all measurement periods during the next twelve months.

Nashville Superspeedway no longer promotes NASCAR events and did not seek sanction agreements from NASCAR for 2013. We continue to use the track for motorsports race team testing and are currently evaluating all of our options for the facility. Since the facility no longer generates sales taxes from NASCAR sanctioned events, we estimated that a portion of the debt service may not be covered by applicable taxes. As a result, we recorded a \$2,250,000 provision for contingent obligation in 2011 reflecting the present value of the estimated portion of the Wilson County bonds debt service that may not be covered by applicable taxes from the facility (see NOTE 9 Commitments and Contingencies for further discussion). Due to changing interest rates, the provision for contingent obligation decreased by \$22,000 and \$35,000, net, in the first three months of 2013 and 2012, respectively, and is \$1,912,000 at March 31, 2013.

We promoted six racing events in 2012 and are scheduled to promote six events in 2013, all of which will be sanctioned by NASCAR and held at our Dover International Speedway facility.

Broadcasting revenues continue to be a significant long-term revenue source for our business. Management believes this long-term contracted revenue helps stabilize our financial strength, earnings and cash flows. Also, NASCAR ratings can impact attendance at our events and sponsorship opportunities. A substantial portion of our profits in recent years has resulted from television revenues received from NASCAR contracts with various television networks, which is expected to continue for the foreseeable future. The current eight-year television broadcasting agreement with various television networks was negotiated and contracted by NASCAR (as will new contracts). Our share of these television broadcast revenues are contracted, and purse and sanction fees are negotiated, with NASCAR on an annual basis for each NASCAR-sanctioned racing event scheduled to be held by us in the upcoming year. Under these annual agreements, we are obligated to conduct events in the manner stipulated under the terms and conditions of the respective sanctioning agreements.

NASCAR recently announced it has reached an eight-year, multi-platform agreement with FOX Sports Media Group ( FOX ) for the broadcasting and digital rights to 13 NASCAR Sprint Cup Series races and the entire Camping World Truck Series (along with practice and qualifying) beginning in 2015 through 2022. For the first time ever beginning in 2013, the new agreement includes TV Everywhere rights that allow live-streaming of all FOX races, before and after race coverage, in-progress and finished race highlights, and replays of FOX-televised races to a Fox Sports-affiliated website. The new agreement also allows re-telecast of races on a FOX network and via video-on-demand for 24 hours, and other ancillary programming including a nightly NASCAR news and information show, and weekend at-track shows.

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, capital spending requirements, stock repurchases, as well as any cash dividends our Board of Directors may declare at least through the next twelve months and also provide for our long-term liquidity. Based on current business conditions, we expect to spend approximately \$200,000 on capital expenditures for the remainder of 2013.

### **Contractual Obligations**

At March 31, 2013, we had the following contractual obligations and other commercial commitments:

#### **Payments Due by Period**

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	Total		2013	2014	2015	2016	2017	Thereafter
Revolving line of credit(a)	\$	21,200,000	\$	\$	21,200,000	\$		\$
Estimated interest payments on revolving line of credit(b)		481,000	350,000		131,000			