

DOVER MOTORSPORTS INC
Form 10-Q
May 04, 2012

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, 2012

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)

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

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, 2012, the number of shares of each class of the registrant's common stock outstanding is as follows:

Common Stock -	18,378,198 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)**

	Three Months Ended March 31,	
	2012	2011
Revenues:		
Event-related	\$ 119	\$ 30
Other	7	100
	126	130
Expenses:		
Operating and marketing	1,100	1,288
General and administrative	1,970	2,151
Depreciation	837	1,413
	3,907	4,852
Operating loss	(3,781)	(4,722)
Interest expense, net	(401)	(841)
Provision for contingent obligation	40	
Other income		4
Loss from continuing operations before income taxes	(4,142)	(5,559)
Income tax benefit	1,519	2,061
Loss from continuing operations	(2,623)	(3,498)
Loss from discontinued operation, net of income taxes		(68)
Net loss	(2,623)	(3,566)
Unrealized gain on available-for-sale securities, net of income taxes	23	5
Change in net actuarial loss and prior service cost, net of income taxes	12	27
Comprehensive loss	\$ (2,588)	\$ (3,534)
Net loss per common share - basic:		
Continuing operations	\$ (0.07)	\$ (0.10)
Discontinued operation		
Net loss	\$ (0.07)	\$ (0.10)

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

Net loss per common share - diluted:

Continuing operations	\$	(0.07)	\$	(0.10)
Discontinued operation				
Net loss	\$	(0.07)	\$	(0.10)

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, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash	\$ 12	\$ 15
Accounts receivable	3,269	689
Inventories	115	115
Prepaid expenses and other	1,441	1,255
Receivable from Dover Downs Gaming & Entertainment, Inc.		11
Prepaid income taxes	331	
Deferred income taxes	74	67
Total current assets	5,242	2,152
Property and equipment, net	95,633	96,380
Other assets	772	783
Deferred income taxes	454	496
Total assets	\$ 102,101	\$ 99,811
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 195	\$ 116
Accrued liabilities	1,766	2,584
Payable to Dover Downs Gaming & Entertainment, Inc.	1	
Income taxes payable		145
Deferred revenue	9,161	3,129
Total current liabilities	11,123	5,974
Revolving line of credit	30,120	29,160
Liability for pension benefits	2,652	2,713
Other liabilities	2,215	2,250
Deferred income taxes	13,566	14,765
Total liabilities	59,676	54,862
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: 18,378,198 and 18,277,977, respectively		
	1,838	1,828
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	101,942	101,888
Accumulated deficit	(60,975)	(58,352)
Accumulated other comprehensive loss	(2,231)	(2,266)
Total stockholders' equity	42,425	44,949
Total liabilities and stockholders' equity	\$ 102,101	\$ 99,811

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

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)

	Three Months Ended March 31,	
	2012	2011
Operating activities:		
Net loss	\$ (2,623)	\$ (3,566)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	837	1,413
Amortization of credit facility fees	55	156
Stock-based compensation	91	144
Deferred income taxes	(1,189)	(1,715)
Provision for contingent obligation	(40)	
Changes in assets and liabilities:		
Accounts receivable	(2,580)	(1,994)
Inventories		(4)
Prepaid expenses and other	(191)	(343)
Prepaid income taxes/income taxes payable	(475)	(382)
Accounts payable	79	86
Accrued liabilities	(818)	(1,380)
Payable to Dover Downs Gaming & Entertainment, Inc.	12	9
Deferred revenue	6,032	6,675
Other liabilities	(36)	62
Net cash used in operating activities	(846)	(839)
Investing activities:		
Capital expenditures	(90)	(123)
Proceeds from the sale of property and equipment		1,875
Proceeds from the sale of available-for-sale securities		69
Purchase of available-for-sale securities		(70)
Net cash (used in) provided by investing activities	(90)	1,751
Financing activities:		
Borrowings from revolving line of credit	2,260	3,100
Repayments on revolving line of credit	(1,300)	(3,800)
Repurchase of common stock	(27)	(52)
Net cash provided by (used in) financing activities	933	(752)
Net (decrease) increase in cash	(3)	160
Cash, beginning of period	15	69
Cash, end of period	\$ 12	\$ 229
Supplemental information:		
Interest paid	\$ 354	\$ 758
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 12, 2012. 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, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 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 2012, all of which were 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.

On August 3, 2011, we announced that our wholly-owned subsidiary Nashville Superspeedway notified NASCAR that it will not seek 2012 sanction agreements for its two Nationwide Series and two Camping World Truck Series events. We continue to use the track for NASCAR team testing and are currently evaluating all of our options for the facility. We incurred a non-cash impairment charge of \$15,687,000 and severance costs of approximately \$150,000 in the third quarter of 2011 as a result of this event. Additionally, 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 10 Commitments and Contingencies for further discussion). Due to a change in interest rates during the first quarter of 2012, we reduced the provision for contingent obligation by \$35,000,

net, to \$2,215,000.

We closed our Gateway facility in the fourth quarter of 2010 and terminated all of our leases for the real property underlying the racetrack in 2011. We continue to own approximately 120 acres of undeveloped land near the Gateway facility (see NOTE 4 Discontinued Operation).

We closed our Memphis Motorsports Park facility in October 2009 and executed an agreement to sell it in December 2010. The real estate sale closed on January 31, 2011. After closing costs and including the proceeds from the separate sale of all personal property at the facility in December 2010, our net proceeds were approximately \$2,000,000.

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 income (loss). See NOTE 7 Stockholders Equity and NOTE 8 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 \$42,894,000 and \$42,076,000 as of March 31, 2012 and December 31, 2011, 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, 2012, tax years after 2007 remain open to examination for federal and Delaware income tax purposes. The IRS is currently examining our federal income tax returns for the 2008 and 2009 tax years.

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.

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

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 receive 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, 2012 or 2011.

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.

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

We were responsible for collecting sales taxes from our customers on certain revenue generating activities at our Nashville facility and remitting these taxes to the appropriate governmental taxing authority. We included sales taxes in admissions and event-related revenues in our consolidated statements of operations with an equal amount in operating and marketing expenses. There were no sales taxes included in revenues and expenses for the three months ended March 31, 2012 or 2011.

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, 2012 or 2011.

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 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 March 31,	
	2012	2011
Net loss per common share basic:		
Net loss	\$ (2,623)	\$ (3,566)
Allocation to nonvested restricted stock awards		
Net loss available to common stockholders	\$ (2,623)	\$ (3,566)
Weighted-average shares outstanding	36,297	36,192
Net loss per common share basic:		
Continuing operations	\$ (0.07)	\$ (0.10)
Discontinued operation		
Net loss	\$ (0.07)	\$ (0.10)
Net loss per common share diluted:		
Net loss	\$ (2,623)	\$ (3,566)
Allocation to nonvested restricted stock awards		
Net loss available to common stockholders	\$ (2,623)	\$ (3,566)
Weighted-average shares outstanding	36,297	36,192
Dilutive stock options		
Weighted-average shares and dilutive shares outstanding	36,297	36,192
Net loss per common share diluted:		
Continuing operations	\$ (0.07)	\$ (0.10)
Discontinued operation		
Net loss	\$ (0.07)	\$ (0.10)

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

For the three months ended March 31, 2011, weighted-average options to purchase 5,000 shares of common stock, respectively, were outstanding but not included in the computation of diluted EPS because they would have been anti-dilutive. There were no options outstanding during the three months ended March 31, 2012.

Accounting for stock-based compensation We recorded total stock-based compensation expense of \$91,000 and \$144,000 as general and administrative expenses for the three months ended March 31, 2012 and 2011, respectively. We recorded income tax expense of \$95,000 and \$75,000 for the three months ended March 31, 2012 and 2011, respectively, related to our restricted stock awards.

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

NOTE 4 Discontinued Operation

The results of operations for our Gateway facility are being reported as a discontinued operation and accordingly, the accompanying consolidated financial statements have been reclassified to report separately the operating results of this discontinued operation.

Summarized results of operations for our Gateway facility for the three months ended March 31, 2011 are as follows:

Revenues	\$
Loss from discontinued operation before income taxes	(105,000)
Income tax benefit of discontinued operation	37,000
Loss from discontinued operation	(68,000)

There were no results of operations for our Gateway facility for the three months ended March 31, 2012. Additionally, there were no assets or liabilities of the discontinued operation in the consolidated balance sheet as of March 31, 2012 or December 31, 2011.

NOTE 5 Long-Term Debt

At March 31, 2012, Dover Motorsports, Inc. and its wholly owned subsidiaries Dover International Speedway, Inc. and Nashville Speedway, USA, Inc., as co-borrowers, had a \$60,000,000 secured credit agreement with a bank group. There was \$30,120,000 outstanding under the credit facility at March 31, 2012, at an interest rate of 2.5%. The maximum borrowing limit under the facility reduces to \$55,000,000 as of March 31, 2013 and the facility expires 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 (225 basis points at March 31, 2012). 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. Material adverse changes in our results of operations could impact our ability to maintain financial ratios necessary to satisfy these requirements. We expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods during the next twelve months. In addition, the credit agreement includes a material adverse change clause, prohibits the payment of dividends by us and provides the lenders with a first lien on all of our assets. 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, 2012, 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 \$9,240,000 at March 31, 2012.

NOTE 6 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-

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

contributory defined benefit pension plan for certain employees. 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.

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.

For the first quarter of 2011, we assumed a long-term rate of return on plan assets of 8.5%. For the first quarter of 2012, we lowered the long-term rate of return on plan assets to 8.0%.

The components of net periodic pension cost are as follows:

	Three Months Ended March 31,	
	2012	2011
Service cost	\$ 7,000	\$ 115,000
Interest cost	114,000	128,000
Expected return on plan assets	(127,000)	(134,000)
Recognized net actuarial loss	20,000	39,000
Net amortization		6,000
	\$ 7,000	\$ 115,000

We expect to contribute approximately \$200,000 to our pension plans in 2012, of which \$56,000 was contributed during the three months ended March 10, 2012. We contributed \$61,000 to our pension plans during the three months ended March 31, 2011.

NOTE 7 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
Balance at December 31, 2011	\$ 1,828	\$ 1,851	\$ 101,888	\$ (58,352)	\$ (2,266)
Net loss				(2,623)	
Issuance of restricted stock awards, net of forfeitures	12		(12)		
Stock-based compensation			91		

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

Repurchase and retirement of common stock	(2)	(25)								
Unrealized gain on available-for-sale securities, net of income tax expense of \$16						23				
Change in net actuarial loss and prior service cost, net of income tax expense of \$8						12				
Balance at March 31, 2012	\$	1,838	\$	1,851	\$	101,942	\$	(60,975)	\$	(2,231)

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

As of March 31, 2012 and December 31, 2011, accumulated other comprehensive loss, net of income taxes, consists of the following:

	March 31, 2012	December 31, 2011
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of \$1,534,000 and \$1,550,000, respectively	\$ (2,235,000)	\$ (2,258,000)
Accumulated unrealized gain (loss) on available-for-sale securities, net of income tax (expense) benefit of (\$4,000) and \$4,000, respectively	4,000	(8,000)
Accumulated other comprehensive loss	\$ (2,231,000)	\$ (2,266,000)

Dividends are prohibited by our credit facility.

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, 2012 or 2011. At March 31, 2012, we had remaining repurchase authority of 1,634,607 shares. At present we are not permitted to make such purchases under our credit facility.

During the three months ended March 31, 2012 and 2011, we purchased and retired 23,779 and 29,575 shares of our outstanding common stock at an average purchase price of \$1.16 and \$1.76 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 8 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).

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

The following table summarizes the valuation of our financial instrument pricing levels as of March 31, 2012 and December 31, 2011:

	Total	Level 1	Level 2	Level 3
March 31, 2012				
Available-for-sale securities	\$ 565,000	\$ 565,000	\$	\$
December 31, 2011				
Available-for-sale securities	\$ 525,000	\$ 525,000	\$	\$

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

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, 2012 and December 31, 2011, there was \$30,120,000 and \$29,160,000 outstanding under our revolving credit agreement. The borrowings under our revolving credit agreement bear interest at the variable rate described in NOTE 5 Long-Term Debt and therefore we believe approximate fair value.

NOTE 9 Related Party Transactions

During the three months ended March 31, 2012 and 2011, Dover Downs Gaming & Entertainment, Inc. (Gaming), a company related through common ownership, allocated costs of \$421,000 and \$438,000, respectively, to us for certain administrative and operating services, including leased space. We allocated certain administrative and operating service costs of \$83,000 and \$68,000, respectively, to Gaming for the three months ended March 31, 2012 and 2011. The allocations were based on an analysis of each company's share of the costs. In connection with our NASCAR event weekends at Dover International Speedway, we invoiced Gaming \$96,000 in each of the three months ended March 31, 2012 and 2011, respectively, for a skybox suite, display space and other services to the events. As of March 31, 2012 and December 31, 2011, our consolidated balance sheets included a \$1,000 payable to and an \$11,000 receivable from Gaming, respectively, for the aforementioned items. We settled these items in April of 2012 and January 2012, respectively. The net costs incurred by each company for these services are not necessarily indicative of the costs that would have been incurred if the companies had been unrelated entities and/or had otherwise independently managed these functions; however, management believes that these costs are reasonable.

Prior to 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 10 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 \$20,300,000 was outstanding at March 31, 2012. Annual principal payments range from \$700,000 in September 2012 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 \$20,640,000 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, 2012 and December 31, 2011, \$1,528,000 and \$1,534,000, 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 2011, we paid \$1,075,000 into the sales and incremental property tax fund and \$741,000 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.

On August 3, 2011, we announced that our wholly-owned subsidiary Nashville Superspeedway had notified NASCAR that it will not seek 2012 sanction agreements for its two Nationwide Series and two Camping World Truck Series events. Since the facility will no longer generate sales taxes from these events, we have 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 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 a change in interest rates during the first quarter of 2012, we reduced the provision for contingent obligation by \$35,000, net, to \$2,215,000. 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 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.

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 receive 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, 2012 or 2011.

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

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

Three Months Ended March 31, 2012 vs. Three Months Ended March 31, 2011

We promoted no racing events during the first quarter of 2012 or 2011; therefore, our revenues were minimal.

Operating and marketing expenses were \$1,100,000 in the first quarter of 2012 as compared to \$1,288,000 in the first quarter of 2011. The decrease was primarily due to lower expenses at our Nashville facility as a result of us no longer promoting major racing events at the facility.

General and administrative expenses were \$1,970,000 in the first quarter of 2012 as compared to \$2,151,000 in the first quarter of 2011. The decrease was primarily related to lower employee expenses.

Depreciation expense decreased to \$837,000 in the first quarter of 2012 as compared to \$1,413,000 in the first quarter of 2011. The decrease was primarily related to cessation of depreciation after the impairment of all depreciable assets of our Nashville facility in the third quarter of 2011.

Net interest expense was \$401,000 in the first quarter of 2012 as compared to \$841,000 in the first quarter of 2011. The decrease was due primarily to lower average borrowings as well as a lower average interest rate and fees pursuant to our new credit facility entered into on April 12, 2011.

Our effective income tax rates for the first quarters of 2012 and 2011 were 36.7% and 37.1%, respectively.

Liquidity and Capital Resources

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

Net cash used in operating activities was \$846,000 for the three months ended March 31, 2012 as compared to \$839,000 for the three months ended March 31, 2011. We reported a loss before income taxes in the first quarter of 2012 and 2011. Additionally, our Nashville facility property taxes are due in the first quarter. These items resulted in net cash used in our operating activities for the quarters ended March 31, 2012 and 2011.

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

Net cash used in investing activities was \$90,000 for the three months ended March 31, 2012 and related primarily to capital improvements at our Dover facility. Net cash provided by investing activities was \$1,751,000 for the three months ended March 31, 2011. Capital expenditures were \$123,000 for the three months ended March 31, 2011 and related primarily to replacement of SAFER barriers at our Nashville facility and improvements to our luxury skybox suites at our Dover facility. We completed the sale of our Memphis facility in January 2011 which resulted in additional net proceeds of \$1,875,000.

Net cash provided by financing activities was \$933,000 for the three months ended March 31, 2012 as compared to net cash used in financing activities of \$752,000 for the three months ended March 31, 2011. We had net borrowings on our outstanding line of credit of \$960,000 in the first three months of 2012 as compared to net repayments of \$700,000 in the first three months of 2011.

At March 31, 2012, Dover Motorsports, Inc. and its wholly owned subsidiaries Dover International Speedway, Inc. and Nashville Speedway, USA, Inc., as co-borrowers, had a \$60,000,000 secured credit agreement with a bank group. There was \$30,120,000 outstanding under the credit facility at March 31, 2012, at an interest rate of 2.5%. The maximum borrowing limit under the facility reduces to \$55,000,000 as of March 31, 2013 and the facility expires 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 (225 basis points at March 31, 2012). 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. Material adverse changes in our results of operations could impact our ability to maintain financial ratios necessary to satisfy these requirements. We expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods during the next twelve months. In

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

addition, the credit agreement includes a material adverse change clause, prohibits the payment of dividends by us and provides the lenders with a first lien on all of our assets. 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, 2012, 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 \$9,240,000 at March 31, 2012.

On August 3, 2011, we announced that Nashville Superspeedway had notified NASCAR that it will not seek 2012 sanction agreements for its two Nationwide Series and two Camping World Truck Series events. We continue to use the track for NASCAR team testing and are currently evaluating all of our options for the facility. Since the facility will no longer generate sales taxes from these events we have estimated that a portion of the debt service may not be covered by the sales taxes and incremental property taxes (applicable taxes). As a result, 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 applicable taxes from the facility (see NOTE 10 Commitments and Contingencies of the consolidated financial statements included elsewhere in this document for further discussion). Due to a change in interest rates during the first quarter of 2012, we reduced the provision for contingent obligation by \$35,000 to \$2,215,000. 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 promoted ten events in 2011 and are scheduled to promote six events in 2012, all of which will be sanctioned by NASCAR and held at our Dover International Speedway facility.

Cash provided by operating activities is expected to substantially fund our capital expenditures. Based on current business conditions, we expect to spend approximately \$250,000 \$400,000 on capital expenditures for the remainder of 2012. Additionally, we expect to contribute approximately \$200,000 to our pension plans for 2012, of which \$56,000 was contributed in the first three months of 2012. We expect continued cash flows from operating activities and funds available from our credit agreement to provide for our working capital needs and capital spending requirements at least through the next twelve months and also provide for our long-term liquidity.

Contractual Obligations

At March 31, 2012, we had the following contractual obligations and other commercial commitments:

	Total	2012	Payments Due by Period				Thereafter
			2013	2014	2015	2016	
Revolving line of credit	\$ 30,120,000	\$	\$ 30,120,000	\$	\$	\$	\$
Estimated interest payments on revolving line of credit(a)	1,523,000	563,000		960,000			
Contingent obligation(b)	2,215,000						2,215,000
Operating leases	79,000	30,000		36,000		13,000	
Pension contributions	144,000	144,000					
Total contractual cash obligations	\$ 34,081,000	\$ 737,000	\$ 31,116,000	\$	\$ 13,000	\$	\$ 2,215,000

(a) The future interest payments on our revolving credit agreement were estimated using the current outstanding principal as of December 31, 2011 and interest rates under our credit agreement entered into on April 12, 2011.

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

(b) 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 \$20,300,000 was outstanding at March 31, 2012. Annual principal payments range from \$700,000 in September 2012 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 applicable taxes are insufficient for the payment of principal and interest on the bonds, we would become responsible for the difference. We are exposed to fluctuations in interest rates for these bonds. In the event we were unable to make the payments, they would be made pursuant to a \$20,640,000 irrevocable direct-pay letter of credit issued by our bank group.

As of March 31, 2012 and December 31, 2011, \$1,528,000 and \$1,534,000, 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 2011, we paid \$1,075,000 into the sales and incremental property tax fund and \$741,000 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.

On August 3, 2011, we announced that our wholly-owned subsidiary Nashville Superspeedway had notified NASCAR that it will not seek 2012 sanction agreements for its two Nationwide Series and two Camping World Truck Series events. As a result, 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 applicable taxes from the facility. Due to a change in interest rates during the first quarter of 2012, we reduced the provision for contingent obligation by \$35,000, net, to \$2,215,000. Based on current projections, our first debt service payment would be due in 2021. 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.

Related Party Transactions

See NOTE 9 Related Party Transactions of the consolidated financial statements included elsewhere in this document.

Critical Accounting Policies

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. As of March 31, 2012, our valuation allowance net of federal income taxes was \$12,204,000, which increased by \$15,000 in the first three months of 2012, from reserving for the deferred tax assets related to state net operating loss carry-forwards. These state net operating losses are related to our Midwest facilities that have not produced taxable income. Valuation allowances fully reserve the state net operating loss carryforwards, net of federal tax benefit. We have considered ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. In the event we were to determine that we would be able to realize all or a portion of these deferred tax assets, an adjustment to the valuation allowance would increase earnings in the period such determination was made. Likewise, should we determine that we would not be able to realize all or a portion of our remaining deferred tax assets in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination was made.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided for financial reporting purposes using the straight-line method over estimated useful lives ranging from 3 to 10 years for furniture, fixtures and equipment and up to 40 years for facilities. These estimates require assumptions that are believed to be reasonable. We perform reviews for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss 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 track land plus the contributory value to the improvements. The primary economic assumptions used in the valuation techniques include: (i) land value which is estimated by comparable transactions; and (ii) that the highest and best use for the facilities is potential real estate development. Changes to these assumptions can have a significant effect on the outcome of future impairment tests and as a result, future valuations could differ significantly from current estimates.

Accrued Pension Cost

On June 15, 2011, we decided to freeze participation and benefit accruals under our pension plans. The freeze was effective July 31, 2011. The benefits provided by our defined-benefit pension plans are based on years of service and employee's remuneration through July 31, 2011. Accrued pension costs are developed using actuarial principles and assumptions which consider a number of factors, including estimates for the discount rate and expected long-term rate of return on assets. Changes in these estimates would impact the amounts that we record in our consolidated financial statements.

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2012 that are of significance, or potential significance, to 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

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

We have established disclosure controls and procedures to ensure that relevant, material information 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 March 31, 2012, 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 March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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

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

Our Relationships With And The Success Of NASCAR Is Vital To Our Success In Motorsports

Our continued success in motorsports is dependent upon the success of NASCAR and our ability to secure favorable contracts with and maintain a good working relationship with them. NASCAR regularly issues and awards sanctioned events and their issuance depends, in large part, on maintaining good working relationships with NASCAR. Our NASCAR events are sanctioned on an annual basis with no contractual obligation

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

to renew. By awarding a sanctioned event or a series of sanctioned events, NASCAR does not warrant, nor are they responsible for, the financial success of any sanctioned event. Our success is directly tied to our ability to negotiate favorable terms to our sanction agreements, including the amount of the sanction fee and purse, and our ability to continue to derive economic benefits from such agreements, such as our share of live broadcast revenues.

Our ability to obtain additional sanctioned events in the future and to negotiate favorable terms to our sanction agreements and the success of NASCAR in attracting drivers and teams, signing series sponsors and negotiating favorable television and/or radio broadcast rights is dependent on many factors which are largely outside of our control. As our success depends on the terms of our sanction agreements and the success of each event or series that we are promoting, a material change in the terms of a sanction agreement or a material adverse effect on NASCAR, such as the loss or defection of top drivers, the loss of significant series sponsors, or the failure to obtain favorable broadcast coverage or to properly advertise the event or series could result in a reduction in our revenues from live

broadcast coverage, admissions, luxury suite rentals, sponsorships, hospitality, concessions and merchandise, which could have a material adverse effect on our business, financial condition and results of operations.

We Rely On Sponsorship Contracts To Generate Revenues

We receive a portion of our annual revenues from sponsorship agreements, including the sponsorship of our various events and venue, such as title, official product and promotional partner sponsorships, billboards, signage and skyboxes. We are continuously in negotiations with existing sponsors and actively seeking new sponsors as there is significant competition for sponsorships. Some of our events may not secure a title sponsor every year, may not secure a sufficient number of sponsorships on favorable terms, or may not secure sponsorships sufficiently enough in advance of an event for maximum impact. Loss of our existing title sponsors or other major sponsorship agreements or failure to secure sponsorship agreements in the future on favorable terms could have a material adverse effect on our business, financial condition and results of operations.

Our Motorsports Events Face Intense Competition For Attendance, Television Viewership And Sponsorship

We compete with other auto speedways for the patronage of motor racing spectators as well as for sponsorships. Moreover, racing events sanctioned by different organizations are often held on the same dates at different tracks. The quality of the competition, type of racing event, caliber of the event, sight lines, ticket pricing, location and customer conveniences, among other things, distinguish the motorsports facilities. In addition, all of our events compete with other sports and recreational events scheduled on the same dates. As a result, our revenues and operations are affected not only by our ability to compete in the motorsports promotion market, but also by the availability of alternative spectator sports events, forms of entertainment and changing consumer preferences.

General Market And Economic Conditions, Including Consumer And Corporate Spending, Could Negatively Affect Our Financial Results

Our financial results depend significantly upon a number of factors relating to discretionary consumer and corporate spending, including economic conditions affecting disposable consumer income and corporate budgets such as employment, business conditions, interest rates and taxation rates.

These factors can impact both attendance at our events and advertising and marketing dollars available from the motorsports industry's principal sponsors and potential sponsors. Economic and other lifestyle conditions such as illiquid consumer and business credit markets adversely affect consumer and corporate spending thereby impacting our growth, revenue and profitability. Unavailability of credit on favorable terms or increases in interest rates can adversely impact our operations, growth, development and capital spending plans. General economic conditions were significantly and negatively impacted by the September 11, 2001 terrorist attacks and the war in Iraq and could be similarly affected by any future attacks, by a terrorist attack at any mass gathering or fear of such attacks, or by other acts or prospects of war. Any future attacks or wars or related threats could also increase our expenses related to insurance, security or other related matters. A weakened economic and business climate, as well as consumer uncertainty and the loss of consumer confidence created by such a climate, could adversely affect our financial results.

The Sales Tax And Property Tax Revenues To Service The Revenue Bonds For Infrastructure Improvements At Nashville May Be Inadequate

In September 1999, the Sports Authority of the County of Wilson (Tennessee) issued \$25,900,000 in revenue bonds to build local infrastructure improvements which benefit the operation of Nashville Superspeedway, of which \$20,300,000 was outstanding on March 31, 2012. Debt service on the bonds is payable solely from sales taxes and incremental property taxes generated from the facility. As of March 31, 2012 and December 31, 2011, \$1,528,000 and \$1,534,000, 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 2011, we paid \$1,075,000 into the sales and incremental property tax fund and \$741,000 was deducted from the fund for principal and interest payments. These bonds are direct obligations of the Sports Authority and therefore have historically not been required to be recorded on our consolidated balance sheet. In the event the sales taxes and incremental property taxes (applicable taxes) are insufficient to cover the payment of principal and interest on the bonds, we would

become responsible for the difference. We are exposed to fluctuations in interest rates for these bonds. In the event we were unable to make the payments, they would be made under a \$20,640,000 irrevocable direct-pay letter of credit issued by our bank group. We would be responsible to reimburse the banks for any drawings made under the letter of credit. Such an event could have a material adverse effect on our business, financial condition and results of operations and compliance with debt covenants.

On August 3, 2011, we announced that Nashville Superspeedway had notified NASCAR that it will not seek 2012 sanction agreements for its two Nationwide Series and two Camping World Truck Series events. Since the facility will no longer generate sales taxes from these events, we have 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 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 a change in interest rates during the first quarter of 2012, we reduced the provision for contingent obligation by \$35,000, net, to \$2,215,000. 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 Have A Significant Amount Of Indebtedness

As of March 31, 2012, we had total outstanding long-term debt of \$30,120,000 under our credit facility. This is in addition to the Nashville Bonds described above. This indebtedness and any future increases in our outstanding borrowings could:

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

In addition, our credit facility is secured by substantially all of our assets and contains financial ratios that we are required to meet and other restrictive covenants that, among other things, limit or restrict our ability to pay dividends, borrow additional funds, make acquisitions, create liens on our properties and make investments.

Our ability to meet these financial ratios and covenants can be affected by events beyond our control, and there can be no assurance that we will be able to meet them. If there were an event of default under our credit facility, the lenders could elect to declare all amounts outstanding to be immediately due and payable. If we were unable to repay these amounts, the lenders could proceed against the collateral granted to them to secure the indebtedness.

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

The Seasonality Of Our Motorsports Events Increases The Variability Of Quarterly Earnings

Our business has been, and is expected to remain, seasonal given that it depends on our outdoor event weekends. We derive a substantially all of our motorsports revenues from admissions, event-related and broadcasting revenue attributable to our NASCAR-sanctioned events at Dover, Delaware which are scheduled to be held in June and September in 2012. In 2011, these events were held in May and October. Total revenues from these events were approximately 90% of total revenues for 2011. As a result, quarterly earnings will vary.

All Of Our Motorsports Revenue is Attributable to One Location

Beginning in 2012, substantially all of our motorsports revenue will come from Dover International Speedway in Dover, Delaware. Any prolonged disruption of operations at this facility due to damage or destruction, inclement weather, natural disaster, work stoppages or other reasons could adversely affect our financial condition and results of operations. We maintain property and business interruption insurance to protect against certain types of

disruption, but there can be no assurance that the proceeds of such insurance would be adequate to repair or rebuild our facilities or to otherwise compensate us for lost profits.

Our Insurance May Not Be Adequate To Cover Catastrophic Incidents

We maintain insurance policies that provide coverage within limits that are sufficient, in the opinion of management, to protect us from material financial loss incurred in the ordinary course of business. We also purchase special event insurance for motorsports events to protect against race-related liability. However, there can be no assurance that this insurance will be adequate at all times and in all circumstances. If we are held liable for damages beyond the scope of our insurance coverage, including punitive damages, our business, financial condition and results of operations could be materially and adversely affected.

In addition, sanctioning bodies could impose more stringent rules and regulations for safety, security and operational activities. Such regulations have included, for example, the installation of new retaining walls at our facilities, which have increased our capital expenditures, and increased security procedures which have increased our operational expenses.

Bad Weather Can Have An Adverse Financial Impact On Our Motorsports Events

We sponsor and promote outdoor motorsports events. Weather conditions, or even the forecast of poor weather, can affect sales of tickets, concessions and merchandise at these events. Although we sell many tickets well in advance of the outdoor events and these tickets are issued on a non-refundable basis, poor weather may adversely affect additional ticket sales and concessions and merchandise sales, which could have an adverse effect on our business, financial condition and results of operations.

We do not currently maintain weather-related insurance for major events. Due to the importance of clear visibility and safe driving conditions to motorsports racing events, outdoor racing events may be significantly affected by weather patterns and seasonal weather changes. Any unanticipated weather changes could impact our ability to stage events. This could have a material adverse effect on our business, financial condition and results of operations.

Postponement And/Or Cancellation Of Major Motorsports Events Could Adversely Affect Us

If one of our events is postponed because of weather or other reasons such as, for example, the general postponement of all major sporting events in this country following the September 11, 2001 terrorism attacks, we could incur increased expenses associated with conducting the rescheduled event, as well as possible decreased revenues from tickets, concessions and merchandise at the rescheduled event. If an event is cancelled, we could incur the expenses associated with preparing to conduct the event as well as lose the revenues, including live broadcast revenues associated with the event.

If a cancelled event is part of a NASCAR series, we could experience a reduction in the amount of money received from television revenues for all of our NASCAR-sanctioned events in the series that experienced the cancellation. This would occur if, as a result of the cancellation, and

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

without regard to whether the cancelled event was scheduled for one of our facilities, NASCAR experienced a reduction in broadcast revenues greater than the amount scheduled to be paid to the promoter of the cancelled event.

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

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

We May Not Be Able To Maintain Our Listing With The NYSE

Our Common Stock is traded on the NYSE under the symbol DVD. We are required to maintain market capitalization of more than \$50,000,000 (measured over a 30 day trading period) or stockholders' equity of more than \$50,000,000 in order to remain in compliance with NYSE continued listing standards. On November 4, 2011, we were notified by the NYSE that we are below criteria for these continued listing standards because, as of November 1, 2011, our 30 trading-day average market capitalization was \$42.3 million and our stockholders' equity as of September 30, 2011 was \$40.9 million.

We had 45 days from receipt of that notice to submit a plan to the NYSE and demonstrate our ability to achieve compliance with continued listing standards within 18 months. The plan we submitted has been accepted by the NYSE. As a result, our common stock will continue to be listed on the NYSE, subject to quarterly reviews by the NYSE's Listing and Compliance Committee to ensure our progress toward its plan to restore compliance with continued listing standards.

Non-compliance with NYSE continued listing standards or delisting from the NYSE could negatively impact us, including, without limitation, our relationships with stockholders, businesses and lenders, our access to debt and equity financing, and our ability to attract and retain personnel by means of equity compensation. This, in turn, could materially and adversely affect our business, financial condition and results of operations. Securities traded in the over-the-counter market generally have significantly less liquidity than securities traded on a national securities exchange, through factors such as a reduction in the number of investors that will consider investing in the securities, the number of market makers in the securities, reduction in securities analyst and news media coverage and lower market prices than might otherwise be obtained.

Our Success Depends On The Availability And Performance Of Key Personnel

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

We Are Subject To Changing Governmental Regulations And Legal Standards That Could Increase Our Expenses

Our motorsports facilities are on large expanses of property which we own. Laws and regulations governing the use and development of real estate may delay or complicate any improvements we choose to make and/or increase the costs of any improvements or our costs of operating.

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

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

State and local laws relating to the protection of the environment also can include noise abatement laws that may be applicable to our racing events. In addition certain laws and regulations, including the Americans with Disabilities Act and the Occupational Safety and Health Act are constantly evolving. Changes in the provisions or application of federal, state or local environmental, land use or other laws, regulations or requirements to our facilities or operations, or the discovery of previously unknown conditions, could require us to make additional material expenditures to remediate or attain compliance.

Regulations governing the use and development of real estate may prevent us from acquiring or developing prime locations for motorsports entertainment facilities, substantially delay or complicate the process of improving existing facilities, and/or increase the costs of any of such activities.

We undertake no obligation to publicly update or revise any forward-looking statements as a result of future developments, events or conditions. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to

which any factor, or combination of factors, may cause actual results to differ significantly from those forecast in any forward-looking statements. Given these risks and uncertainties, stockholders should not overly rely or attach undue weight to our forward-looking statements as an indication of our actual future results.

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

On 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. At present we are not permitted to make such purchases under our credit facility.

Item 3. **Defaults Upon Senior Securities**

None.

Item 4. **Mine Safety Disclosures**

Not applicable.

Item 5. **Other Information**

None.

Item 6. **Exhibits**

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

- 101.1 XBRL Instance Document*
- 101.2 XBRL Taxonomy Extension Schema Document*
- 101.3 XBRL Taxonomy Extension Calculation Linkbase Document*
- 101.4 XBRL Taxonomy Extension Definition Linkbase Document*
- 101.5 XBRL Taxonomy Extension Label Linkbase Document*
- 101.6 XBRL Taxonomy Extension Presentation Linkbase Document*

* The XBRL information is being furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any registration statement under the Securities Act of 1933, as amended.

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: May 4, 2012

Dover Motorsports, 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
and Chief Financial Officer*
(Principal Financial and Accounting Officer)