



Dover  
Downs  
Gaming & Entertainment, Inc.

2014 ANNUAL REPORT

# 2014 SHAREHOLDERS' LETTER

As has been the case for the last several years, our near-term and long-term success is largely dependent on actions being considered by our state government.

Operationally we remain strong, as evidenced by our ability to continually win industry awards – driven by the investments we have made in our property and what our dedicated employees do day after day to ensure that our patrons are repeat customers. We are a well-run and, excluding legislated revenue sharing provisions, an otherwise profitable enterprise. But considering the recent dramatic increases in gaming supply in the region, too much of what we earn is diverted. In the year ended December 31, 2014, we generated \$91.3 million in adjusted pre-tax income – before payments to the State, the horsemen and slot machine vendors, which amounted to \$92 million. This left us with a \$706,000 net loss for the year. The current revenue sharing model is simply not sustainable.

The stakeholders in our business are many. In addition to you, the stockholders that have invested in us, we must take care of our employees. We must pay our vendors and keep our facility appealing. We must fund the horse racing industry, and we must endure the legacy of seven tax increases to fund the State's budget shortfalls – increases that need to be rolled back. We pay more in taxes to the State and local governments than any other industry...a great deal more.

Consider that, since inception, the gaming industry in Delaware has paid close to \$1 billion towards purses for the horsemen and roughly \$3.5 billion to the State (excluding income taxes, payroll taxes and real estate taxes). You would think that an industry capable of such numbers would be vibrant and worthy of strategic consideration by the State.

The Lottery and Gaming Study Commission, convened by our legislature for the second straight year, has again made common sense recommendations that can bring the gaming industry in Delaware back to health.

Last year the legislature failed to pass the full measure of those recommendations.

Senate Bill 30 has been introduced to enact this year's recommendations of the Lottery and Gaming Study Commission.

Our casino and hotel provide a living for many Delawareans and we contribute greatly to the regional economy, tourism and the State's General Fund.

It is important that we be allowed to continue to do so. We remain hopeful that this is the year that the recommendations of the Lottery and Gaming Study Commission find appropriate support in our legislative and executive branches.

We believe the Delaware gaming industry can be vibrant and competitive. It is critical, however, that the State's share is viewed through the proper prism – we must recognize dramatic changes that have occurred in our regional marketplace and allow for a sensible allocation of resources to prime the industry's long term health.

Thank you for your continued support.



*Henry B. Tippie*

Henry B. Tippie  
Chairman of the Board  
of Directors



*Denis McGlynn*

Denis McGlynn  
President and Chief  
Executive Officer



**United States  
Securities and Exchange Commission  
Washington, D.C. 20549**

**Form 10-K**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended December 31, 2014**

**Commission file number 1-16791**

**Dover Downs Gaming & Entertainment, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation)

**51-0414140**

(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

**(302) 674-4600**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of Class</u>	<u>Name of Exchange on Which Registered</u>
Common Stock, \$.10 Par Value	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:** None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 [X]

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

The aggregate market value of common stock held by non-affiliates of the registrant was \$24,054,681 as of June 30, 2014 (the last day of our most recently completed second quarter).

As of February 27, 2015, the number of shares of each class of the registrant's common stock outstanding is as follows:

Common Stock -	18,034,197 shares
Class A Common Stock -	14,870,673 shares

**Documents Incorporated by Reference**

Portions of the registrant's Proxy Statement in connection with the Annual Meeting of Stockholders to be held April 29, 2015 are incorporated by reference into Part III, Items 10 through 14 of this report.

## Part I

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

### **Item 1. Business**

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

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

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

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

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

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

Our license from the Delaware Harness Racing Commission (the “Commission”) to hold harness race meetings on our premises and to offer pari-mutuel wagering on live and simulcast horse races must be renewed on an annual basis. In order to maintain our gaming license, we are required to maintain our harness horse racing license. We have received an annual license from the Commission for the past 46 consecutive years and management believes that our relationship with the Commission remains good.

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

In recent years, the mid-Atlantic region has witnessed an unprecedented expansion in gaming venues and gaming offerings. This is having a significant adverse effect on our visitation numbers, our revenues and our profitability. Management has estimated that approximately 32% of our gaming win comes from Maryland patrons and approximately 64% of our Capital Club® member gaming win comes from out of state patrons.

In June 2012, the State enacted the Delaware Gaming Competitiveness Act of 2012 (the “Act”), under which Delaware's video lottery agents are authorized to offer, through their websites, internet versions of their table games (including poker and bingo) and video lottery offerings. All games remain under the control and operation of the Delaware Lottery. Revenues from the internet versions of table games and video lottery games are distributed generally pursuant to the formula currently applicable to those games physically located within our casino, with the exception that internet service provider costs are deducted first, and the Delaware Lottery retains the first \$3.75 million of state-wide net proceeds. We began offering internet gaming in the fourth quarter of 2013; to date operating results from internet gaming have not been material. Internet lottery games are, at least initially, offered solely to persons located within the State of Delaware. This territorial limitation would not apply to gaming pursuant to an interstate compact, such as the one announced in February 2014 between Delaware and Nevada. Internet gaming participation is limited to persons who meet the age requirements for equivalent non-internet games.

The Act also eliminated the gaming license fee and restructured the table game license fee currently paid by video lottery agents to incentivize agents to make capital expenditures, spend on marketing and promotions, and make debt service payments. In June 2012, we paid a \$2,241,000 table game license fee, which was for the period July 1, 2012 to June 30, 2013. This fee decreased to \$1,017,000 for the period July 1, 2013 to June 30, 2014 and was paid in June 2013. The fee increased slightly to \$1,071,000 for the period July 1, 2014 to June 30, 2015 and was paid in June 2014.

In July 2013, the State enacted a bond and capital improvements bill which appropriated \$8,000,000 to the Department of Finance to be used to offset increases in vendor costs that the three Delaware video lottery agents would otherwise pay for the period July 1, 2013 to June 30, 2014. The State used \$875,000 of the amount appropriated to offset increases in our vendor costs. Additionally, the bill created a Lottery & Gaming Study Commission responsible for examining the competitive marketplace confronting the Delaware gaming industry, including the business performance and business plans of existing lottery agents, the marketing efforts and investments made by Delaware video lottery agents, and the division of revenue from the video lottery, sports lottery, table games and internet gaming. The commission's findings and recommendations were released in March 2014 and included: the State sharing certain vendor costs that the three Delaware video lottery agents currently pay associated with slot machines; reducing the State's share of table game win; and eliminating the annual table game license fee. On July 1, 2014, the Delaware legislature approved the vendor cost sharing recommendation on a permanent basis. The State estimates this will provide \$9,900,000 to be used toward vendor costs for the three Delaware video lottery agents for the fiscal year July 1, 2014 to June 30, 2015. This is being allocated among the three video lottery agents based on their relative portion of industry-wide slot revenues. For 2014, our video lottery vendor costs were reduced by approximately \$1,950,000 as a result of the cost sharing arrangement. The recommendations to reduce the State's share of gross table game revenues and eliminate the table game license fee were not part of the legislation that was passed.

The commission reconvened in September 2014 to consider previous and make further recommendations relative to the gaming industry. The commission's findings and recommendations were released in January 2015 and included: increasing the State's share of vendor costs associated with slot machines; eliminating the annual table game license fee; reducing the State's share of table game win; and providing each video lottery agent a credit of up to 5% of video lottery proceeds to be used for marketing expenditures and a credit of up to 5% of video lottery proceeds to be used for capital expenditures. These recommendations require legislation in order to be effected.

The Delaware legislature is in session until the end of June and then does not reconvene until the following January. Since Delaware has a fiscal year that ends June 30, it is likely that any legislation will not be effective until July 1, 2015. Without legislative relief, we may be unable to refinance or extend the maturity of our credit facility on favorable terms or may default on our obligations, we may be unable to allocate sufficient resources to marketing and promotions in order to compete effectively in the regional marketplace, we may be unable to allocate sufficient resources to maintaining our facility, and we may be required to take other actions in order to manage expenses -

especially with respect to operations that have operated at a loss, such as table games and internet gaming. Such actions could adversely affect our business, financial condition, operating results and cash flow.

In February 2013, we opened a Herschel's 34 Chicken & Ribs Kitchen in Athens, Georgia. Herschel's was a 110-seat sports-themed restaurant owned and operated by us on approximately 4,100 square feet of leased property. During the fourth quarter of 2014, management made the decision to sell the assets of Herschel's. In January of 2015, we closed Herschel's and are currently in the process of disposing of its assets.

### **Dover Downs Casino**

Our casino opened in December 1995 with approximately 500 slot machines. Due to its popularity, the casino has expanded six times since its opening. The casino complex features 165,000 square-feet of space and houses 2,350 slot machines at December 31, 2014. We are open for business 24 hours per day, seven days per week. Our facilities are open every day of the year, except Christmas and Easter, and we estimate that the facility was visited by approximately 1.9 million patrons in 2014.

Our slot machines range from our popular penny machines to \$100 machines in the Premium Slots area and include some of the most popular games found in the country's major gaming jurisdictions.

In January 2010, the Delaware legislature authorized table games at the facilities of the State's three video lottery agents. On June 25, 2010, we opened our table game operations with 40 tables including blackjack, craps and roulette tables. The Crown Royal poker room opened on July 14, 2010 with 12 poker tables.

Our Race & Sports Book operation features parlay sports wagering on National Football League ("NFL") games, and pari-mutuel wagering on live and simulcast horse races.

Dover Downs, Inc. is authorized to conduct video lottery, sports wagering, table game and internet gaming operations as one of three "Licensed Agents" under the Delaware State Lottery Code. Licensing, administration and control of gaming operations in Delaware is under the Delaware State Lottery Office and Delaware's Department of Safety and Homeland Security, Division of Gaming Enforcement. We are required by law to set the payout on our slot machines to customers between 87% and 95%.

We use sophisticated database marketing to enable us to develop long-term relationships with our patrons and to target promotions to specific customer segments. Our Capital Club<sup>®</sup>, a slots players club and tracking system, allows us to identify customers and to reward their level of play through various marketing programs. Membership in this club currently stands at approximately 154,000 active patrons in one of three tiers – Capital Gold<sup>®</sup>, Capital Platinum<sup>®</sup> or Platinum Elite<sup>®</sup>.

We have implemented extensive procedures for financial and accounting controls, safekeeping and accounting of monies, and security provisions. Security over the gaming operations involves the integration of surveillance cameras, observation and oversight by employees, security and gaming staff, and various security features built into our equipment. The above, when combined with proper internal control procedures and daily monitoring by the Delaware State Lottery Office and Delaware's Department of Safety and Homeland Security, Division of Gaming Enforcement, are intended to maintain the security, integrity and accountability of our gaming operations.

### **Dover Downs Hotel**

Our luxury hotel facility, the Dover Downs Hotel and Conference Center, is the largest hotel in the State of Delaware and connects to our casino. The facility includes 500 rooms, including eleven luxury spa suites, a multi-purpose ballroom/concert hall, a fine dining restaurant, swimming pool and a luxurious 6,000 square-foot full-service spa. Our facility offers 35,000 square feet of conference space, the most of any hotel in Delaware. By offering a wide range of entertainment options to our patrons, including concerts featuring prominent entertainers, live boxing, gourmet dining, spa facilities, trade shows and conferences, we believe we are able to attract new patrons and lengthen the stay of current patrons and encourage visits from patrons who may have a more convenient gaming option. In 2014, hotel occupancy averaged 85% and the hotel was awarded the AAA Four Diamond Award for the twelfth consecutive year.

## **Dover Downs Raceway**

Dover Downs Raceway has presented pari-mutuel harness racing events for 46 consecutive years. Live harness races are conducted at Dover Downs Raceway from November until April and are simulcast to more than 300 tracks and other off-track betting locations across North America on each of our 106 scheduled live race dates. During our harness racing season, we have historically used the 5/8-mile harness racing track that is located on DVD's property and is on the inside of its one-mile motorsports superspeedway. In order to continue this historic use, DVD granted a perpetual easement to the harness track to us at the time of the spin-off. This perpetual easement allows us to have exclusive use of the harness track during the period beginning November 1 of each year and ending April 30 of the following year, together with set up and tear down rights for the two weeks before and after such period. The easement requires that we maintain the harness track but does not require the payment of any rent. Additional amenities include the Winners Circle<sup>®</sup> Restaurant overlooking the horse racing track.

Within our Race & Sports Book operation is the simulcast parlor where our patrons can wager on harness and thoroughbred races received by satellite into our facility year round from numerous tracks across North America. Large flat screen monitors throughout the area provide views of all races simultaneously and the betting windows are connected to a central computer allowing bets to be received on all races from all tracks.

Harness racing in the State of Delaware is governed by the Delaware Harness Racing Commission. We hold a license from the Harness Racing Commission authorizing us to hold harness race meetings on our premises and to offer pari-mutuel wagering on live and simulcast horse races.

In harness racing, competing horses are harnessed to a two-wheeled sulky, which carries the driver. Pari-mutuel wagering is pooled betting by which the wagering public, not the track, determines the odds and the payoff. The track retains a commission, which is a percentage of the total amount wagered, or the "handle." Simulcasting is the transmission of live horse racing by television, cable or satellite signal from one race track to another with pari-mutuel wagering being conducted at the sending and receiving track and a portion of the handle being shared by the sending and receiving tracks.

The legislation authorizing our gaming operations under the Delaware Lottery was initially adopted in June 1994, and is referred to as the "Horse Racing Redevelopment Act." The Delaware General Assembly's stated purpose in approving the legislation was to (i) provide non-state supported assistance in the form of increased economic activity and vitality for Delaware's harness and thoroughbred horse racing industries, which activity and vitality will enable the industry to improve its facilities and breeding stock, and cause increased employment; and (ii) restrict the location of gaming operations to locations where wagering is already permitted and controls exist. A portion of the proceeds from our gaming operations is allocated to increase the purses for harness horse races held at Dover Downs Raceway and is intended to provide increased vitality for Delaware's horse racing industry.

We have an agreement with the Delaware Standardbred Owner's Association, Inc. ("DSOA") effective July 1, 2014 and continuing through August 31, 2016. DSOA's membership consists of owners, trainers and drivers of harness horses participating in harness race meetings at our facilities and elsewhere in the United States and Canada. The DSOA has been organized and exists for the purpose of promoting the sport of harness racing; improving the lot of owners, drivers and trainers of harness racing horses participating in race meetings; establishing health, welfare and insurance programs for owners, drivers and trainers of harness racing horses; negotiating with harness racing tracks on behalf of owners, trainers, drivers and grooms of harness racing horses; and generally rendering assistance to them whenever and wherever possible. Under the DSOA agreement, we are required to distribute as purses for races conducted at our facilities a percentage of our retained share of pari-mutuel revenues.

We enjoy a good relationship with representatives of DSOA and anticipate that this relationship will continue. We believe that the DSOA agreement is typical of similar agreements in the industry.

## Licensing and Regulation by Gaming and Other Authorities

### *General*

We are subject to extensive federal, state and local regulations related to our operations, particularly our video lottery, sports wagering, table game and internet gaming operations, live harness racing and pari-mutuel wagering. These operations are contingent upon continued government approval of such operations as forms of legalized gaming and could be subjected at any time to additional or more restrictive regulations. The following is a brief outline of some of the more significant regulations affecting our gaming operations and not intended as a recitation of all regulations applicable to our business.

Delaware law regulates the percentage of commission we are entitled to receive from our gaming activities, which comprises a significant portion of our overall revenues. Our licenses to conduct video lottery, sports wagering and table game operations, harness horse races and pari-mutuel wagering could be modified or repealed at any time and we could be required to terminate our gaming operations.

### *Video Lottery, Sports Wagering, Table Game and Internet Gaming Operations*

*General.* Video lottery, sports wagering, table game and internet gaming operations are by statute operated and administered by the Director of the Delaware State Lottery Office (the "Lottery Director") and Delaware's Department of Safety and Homeland Security, Division of Gaming Enforcement. We are a Licensed Agent authorized to conduct these activities under the Delaware State Lottery Code.

The Lottery Director has discretion to adopt such rules and regulations as the Lottery Director deems necessary or desirable for the efficient and economical operation and administration of the lottery, including (i) type and number of games permitted, (ii) pricing of games, (iii) numbers and sizes of prizes, (iv) manner of payment, (v) value of bills, coins or tokens needed to play, (vi) requirements for licensing agents and service providers, (vii) standards for advertising, marketing and promotional materials used by Licensed Agents, (viii) procedures for accounting and reporting, (ix) registration, kind, type, number and location of machines or equipment on a Licensed Agent's premises, (x) security arrangements for the gaming systems, and (xi) reporting and auditing of financial information of Licensed Agents.

*Licensing Requirements.* We were granted a gaming license on December 13, 1995. Initially, the license was for video lottery operations but it now extends to our sports wagering, table game and internet gaming operations. Delaware gaming licenses do not have an expiration date.

There are continuing licensure requirements for all officers, directors, key employees and persons who own directly or indirectly 10% or more of a Licensed Agent, which licensure requirements shall include the satisfaction of such security, fitness and background standards as the Lottery Director may deem necessary relating to competence, honesty and integrity, such that a person's reputation, habits and associations do not pose a threat to the public interest of the State or to the reputation of or effective regulation and control of the lottery; it being specifically understood that any person convicted of any felony, a crime involving gambling, or a crime of moral turpitude within 10 years prior to applying for a license or at any time thereafter shall be deemed unfit.

There are similar licensure requirements for providers of equipment and certain companies that seek to provide services to a Licensed Agent.

*Revocation, Suspension or Modification of License.* The Lottery Director may revoke or suspend the license of a Licensed Agent, such as ours, for "cause." "Cause" is broadly defined and could potentially include falsifying any application for license or report required by the rules and regulations, the failure to report any information required by the rules and regulations, the material violation of any rules and regulations promulgated by the Lottery Director or any conduct by the licensee which undermines the public confidence in the lottery or serves the interest of organized gambling or crime and criminals in any manner. A license may be revoked for an unintentional violation of any federal, state or local law, rule or regulation provided that the violation is not cured within a reasonable time as determined by the Lottery Director. A hearing officer's decision revoking or suspending the license shall be appealable to the Delaware Superior Court under the provisions of the Administrative Procedures Act. All existing

or new officers, directors, key employees and owners of a Licensed Agent are subject to background investigation. Failure to satisfy the background investigation may constitute cause for suspension or revocation of the License.

*Ownership Changes.* Under Delaware law, a change of ownership of a Licensed Agent will automatically terminate its license 90 days after the change of ownership occurs, unless the Lottery Director determines after application to issue a new license to the new owners. Change of ownership may occur if any new individual or entity acquires, directly or indirectly, 10% or more of the Licensed Agent or if more than 20% of the legal or beneficial interest in the Licensed Agent is transferred, whether by direct or indirect means. The Lottery Director may require extensive background investigations of any new owner acquiring a 10% or greater interest in a Licensed Agent, including criminal background checks. Accordingly, we have a restrictive legend on our shares of common stock which require that (a) any holders of common stock found to be disqualified or unsuitable or not possessing the qualifications required by any appropriate gaming authority could be required to dispose of such stock and (b) any holder of common stock intending to acquire 10% or more of our outstanding common stock must first obtain prior written approval from the Delaware State Lottery Office.

*Harness Racing Events.* In order to maintain our gaming license with the Delaware Lottery, we are required to maintain our license for harness horse racing with the Harness Racing Commission and must conduct a minimum of 80 live race days each racing season, subject to the availability of racing stock.

*Control Over Equipment and Technology.* We do not own or lease the slot machines or computer systems used by the State in connection with our video lottery gaming operations. The Lottery Director enters into contracts directly with the providers of the slot machines and computer systems and we are not a party to those negotiations. At our expense, the State purchases or leases all equipment and the Lottery Director licenses all technology providers. Similarly, but at no expense to us, the Lottery Director enters into contracts directly with internet service providers. Our operations could be disrupted if a licensed technology provider violates its agreement with the State or ceases to be licensed for any reason. Such an event would be outside of our control and could adversely affect our gaming revenues.

#### *Harness Racing and Pari-Mutuel Wagering*

*Licensing Requirements.* Harness racing in the State of Delaware is governed by the Delaware Harness Racing Commission. We hold a license from the Commission by which we are authorized to hold harness race meetings on our premises and to make, conduct and sell pools by the use of pari-mutuel machines or totalizators. The license must be renewed on an annual basis. The Commission may reject an application for a license for any cause which it deems sufficient and the action of the Commission is final. The Commission may also suspend or revoke a license which it has issued and its action in that respect is final, subject to review, upon questions of law only, by the Superior Court of the County within which the license was granted. The action of the Commission stands unless and until reversed by the Court. We have received an annual license from the Commission for the past 45 consecutive years and management believes that our relationship with the Commission remains good. However, there can be no assurances that we will continue to be licensed by the Commission in the future.

Under the law, the Commission has broad powers of supervision and regulation. The Commission may prescribe rules, regulations and conditions under which all harness racing and betting pools shall be conducted; may regulate the performance of any service or the sale of any article on the premises of a licensee; may compel the production of books and documents of a licensee and require that books and records be kept in such manner as the Commission may prescribe; may visit, investigate and place accountants or other persons as it deems necessary, at the expense of a licensee, in the office, track or place of business of a licensee; may summon witnesses and administer oaths; and may require the removal of any employee or official employed by a licensee. All proposed extensions, additions or improvements to the property of a licensee are subject to the approval of the Commission.

The Commission is required to inspect a licensee's racing plant not less than five days prior to a race meeting and may withdraw the license for the meeting if the racing plant is found to be unsafe for animals or persons or is not rendered safe prior to the opening of the meeting. A licensee must deposit with the Commission, ten days before a race meeting, a policy of insurance against personal injury liability in an amount to be approved by the Commission.

*USTA.* Any license granted by the Commission is also subject to such reasonable rules and regulations as may be prescribed from time to time by the United States Trotting Association (“USTA”). The USTA sets various rules relating to the conduct of harness racing. According to its Articles of Incorporation, the purposes of the USTA shall include the improvement of the breed of trotting and pacing horses, the establishment of rules regulating standards and the registration of such horses thereunder, the advancement and promotion of the interest of harness racing in the United States, the investigation, ascertainment and registration of the pedigrees of such horses, the regulation and government of the conduct of the sport of harness racing, the establishment of rules for the conduct thereof, not inconsistent with the laws of the various states, and the sanctioning of the holding of exhibitions of such horses and meetings for the racing thereof, the issuance of licenses to qualified persons to officiate at harness race meetings and exhibitions, the issuance of licenses to the owners of horses permitting the exhibition and racing of such horses and the qualification thereof, the issuance of licenses to drivers of horses participating in such races or exhibitions, and providing for the enforcement of the rules promulgated by the USTA, and providing for the fixing of penalties, fines, and the suspension or expulsion from membership, or privileges or for any other misconduct detrimental to the sport.

#### *Gaming Taxes and Fees*

We believe that the prospect of significant additional tax revenue is one of the primary reasons why jurisdictions have legalized gaming. As a result, gaming operators are typically subject to significant taxes and fees in addition to normal federal and state corporate income taxes. These taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our gaming operations and the State’s share of our gaming win has been increased several times. In addition, any material increase in taxes or fees, or the adoption of additional taxes or fees, may have a material adverse effect on our future financial results.

#### *Compliance with Other Laws*

We are subject to various federal, state and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Laws and regulations governing the use and development of real estate may delay or complicate any improvements we choose to make and/or increase the costs of any improvements or our costs of operating.

The Internal Revenue Service (“IRS”) requires operators of casinos located in the United States to file information returns for United States citizens, including names and addresses of winners, for all winnings in excess of stipulated amounts. The IRS also requires operators to withhold taxes on certain winnings.

Regulations adopted by the Financial Crimes Enforcement Network of the Treasury Department (“FinCEN”) require us to report currency transactions in excess of stipulated amounts occurring within a gaming day, including identification of the patron by name and social security number. FinCEN has also established regulations that require us to file suspicious activity reports on all transactions that we know, suspect, or have reason to suspect fall into specific categories that are deemed to be suspicious. We believe our programs meet the requirements of the applicable regulations.

Laws and regulations are always subject to change, can be interpreted differently in the future, and new laws and regulations may be enacted which could adversely affect the tax, regulatory, operational or other aspects of the gaming industry and our company. Furthermore, noncompliance with one or more of these laws and regulation could result in the imposition of substantial penalties against us.

#### **Competition**

The gaming industry in the United States is intensely competitive and features many participants, including riverboat casinos, dockside casinos, land-based casinos and racinos, slot and poker machines, whether or not located in casinos, native American gaming, pari-mutuel wagering on live and simulcast horse racing, off-track betting, state run lotteries, internet gambling and other forms of gambling. Gaming competition is particularly intense in each of these sectors.

We compete in local and regional markets with horse tracks and racinos, off-track betting parlors, state run lotteries, casinos, internet gambling and other forms of gaming. In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including shopping, collegiate and professional athletic events, television and movies, concerts and travel. Many of our gaming competitors are in jurisdictions with a lower tax burden and with a closer proximity to large population bases. As gambling opportunities in the region continue to proliferate, there can be no assurance that we will maintain our state or regional market share or be able to compete effectively with our competitors and this could adversely affect our business, financial condition and overall profitability.

The introduction or expansion of gaming in neighboring jurisdictions, particularly Maryland, Virginia, West Virginia, Washington, D.C., Pennsylvania or New Jersey, the proliferation of internet gaming or the legalization of additional gaming venues in Delaware, could have a material adverse effect on our cash flows and results of operations. Delaware is surrounded by jurisdictions which permit slot machines, such as Pennsylvania, New Jersey, Maryland and West Virginia, and all of these jurisdictions also permit table games.

In recent years, the mid-Atlantic region has witnessed an unprecedented expansion in gaming venues and gaming offerings. This is having a significant adverse effect on our visitation numbers, our revenues and our profitability. Management has estimated that approximately 32% of our gaming win comes from Maryland patrons and approximately 64% of our Capital Club® member gaming win comes from out of state patrons.

All states in our geographic region have state-run lotteries. State run lotteries are no longer prohibited by federal law from offering lottery products or other gaming opportunities over the internet or through mobile applications if permitted by state law.

Delaware, Nevada and New Jersey have passed legislation authorizing internet gaming and other states are pursuing or exploring the legalization of internet gaming in various forms – from state run lotteries to privately run casino games, including online poker. States are aggressively seeking new revenue streams through gaming. New Jersey is also pursuing sports betting despite a federal law that prohibits it from doing so.

Competition in horse racing is varied since racetracks in the surrounding area differ in many respects. Some tracks only offer thoroughbred or harness horse racing; others have both. Tracks have live racing seasons that may or may not overlap with neighboring tracks. Depending on the purse structure, tracks that are farther apart may compete with each other more for quality horses than for patrons.

Live harness racing also competes with simulcasts of thoroughbred and harness racing. All racetracks in the region are involved with simulcasting. In addition, a number of off-track betting parlors compete with track simulcasting activities. With respect to the simulcasting of our live harness races to tracks and other locations, our simulcast signals are in direct competition with live races at the receiving track and other races being simulcast to the receiving location.

Within the State of Delaware, we face little direct live competition from the State's other two tracks. Harrington Raceway, a south central Delaware fairgrounds track, conducts harness horse racing periodically between April and October. There is no overlap presently with our live race season from Harrington. Delaware Park, a northern Delaware track, conducts thoroughbred horse racing from April through mid-November. Its race season only overlaps with ours for approximately one week each year.

We compete with harness and thoroughbred racing and simulcasting facilities in the neighboring states of Pennsylvania, Maryland and New Jersey. We also receive simulcast harness and thoroughbred races from approximately 80 race tracks.

Competition for our hotel varies and consists of local and regional competition. With respect to hotel accommodations only, we compete with a variety of nearby hotels in the Dover area; however, none of these offer the luxury accommodations and amenities that we offer. Our hotel is the only hotel in the Dover area, and one of only three hotels in the State, to receive the AAA Four Diamond Award. With respect to trade shows, conferences, concerts and hotel room packages tied to these events or tied to our casino and other gaming offerings, we compete

at a regional level with the other gaming operations referred to above and with convention centers and larger hotels in major cities such as Philadelphia, Washington, D.C., Baltimore and Wilmington.

In addition, our activities compete with other leisure, entertainment and recreational activities.

### **Mission and Strategy**

We offer a unique gaming and entertainment experience and make available to our patrons a number of different options: slot machine gaming, table game wagering, sports wagering, live harness horse racing, luxury hotel accommodations, fine dining, full service spa, national recording and entertainment acts, night club, retail shopping, trade shows and conferences, and simulcasting of thoroughbred and harness horse races from across North America. Our mission is simple: to provide all of our customers a premier gaming and entertainment experience with a focus on unparalleled customer service. We foster customer loyalty by following this mission, focus on our most valuable customers, expand and improve the quality of our gaming positions, enhance our gaming products with additional entertainment offerings and create an exciting gaming environment while focusing on areas that we believe will increase our revenue and profitability.

We use a sophisticated database marketing program to enable us to develop long-term relationships with our patrons and to target promotions to specific customer segments. Our Capital Club, a players club and tracking system, allows us to identify customers and to reward their level of play through various marketing programs. Membership in this club currently stands at approximately 154,000 active patrons. We attempt to increase attendance at both our casino and hotel through effective promotional use of our database and by making improvements to our facilities and gaming offerings based on what we learn from our Capital Club members. For example, we continually add the most popular machines, have added live table games, as well as multi-player electronic table games and other amenities requested by our customers. We began offering internet gaming in the fourth quarter of 2013.

Our luxury hotel facility, the Dover Downs Hotel, connects to our casino. It is one of only three hotels in Delaware to receive the AAA Four Diamond Award and the only casino hotel in the State. By offering a wide range of entertainment options to our patrons, including concerts featuring prominent entertainers, live boxing, gourmet dining, spa amenities, trade shows and conferences, we believe we are able to attract new patrons and lengthen the stay of current patrons.

### **Seasonality**

Our quarterly operating results are affected by weather and the general economic conditions in the United States. Additionally, given our high level of fixed operating costs, fluctuations in our business volume can lead to variations in quarterly operating results. The results for any quarter are not necessarily indicative of results to be expected in any future period.

### **Employees**

As of December 31, 2014, we had 1,391 employees, of which 803 were full-time. We engage temporary personnel to assist during our live harness racing season. None of our employees are party to a collective bargaining agreement and we believe that our relationship with our employees is good.

### **Available Information**

We file annual, quarterly and current reports, information statements and other information with the United States Securities and Exchange Commission (the "SEC"). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is [www.sec.gov](http://www.sec.gov).

## **Internet Address**

We maintain a website where additional information concerning our business and various upcoming events can be found. The address of our Internet website is [www.doverdowns.com](http://www.doverdowns.com). We provide a link on our website, under Investor Relations, to our filings with the SEC, including our annual report on Form 10-K, proxy statement, Section 16 reports, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports.

## **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, possible 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,” “goals,” “aims,” “projects,” “forecasts,” “possible,” “seeks,” “may,” “could,” “should,” “might,” “likely” or similar words or expressions are used, as well as phrases such as “in 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.

### *We Have a Significant Amount of Indebtedness*

As of December 31, 2014, we had total outstanding long-term debt of \$39,010,000 under our credit facility. The facility is classified as a current liability as of December 31, 2014 in our consolidated balance sheets as the facility expires on September 30, 2015. We will seek to refinance or extend the maturity of this obligation prior to its expiration date; however, there is no assurance that we will be able to execute this refinancing or extension or, if we are able to refinance or extend this obligation, that the terms of such refinancing or extension would be as favorable as the terms of our existing credit facility. These factors raise substantial doubt about our ability to continue as a going concern. This indebtedness and any future increases in our outstanding borrowings or decreases in our results of operations 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;
- subject us to the risks that interest rates and our interest expense will increase; and
- place us at a competitive disadvantage compared to competitors that have less relative debt.

In addition, our credit facility contains financial ratios that we are required to meet and other restrictive covenants that, among other things, limit or restrict our ability to borrow additional funds, make acquisitions, create liens on our properties and make investments. Our ability to meet these financial ratios and covenants can be affected by events beyond our control, and there can be no assurance that we will 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.

In recent years, additional gaming venues are having a significant adverse effect on our visitation numbers, our revenues and our profitability.

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

We compete in local and regional markets with horse tracks and racinos, off-track betting parlors, state run lotteries, casinos, internet gambling and other forms of gaming. In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including shopping, collegiate and professional athletic events, television and movies, concerts and travel. Many of our gaming competitors are in jurisdictions with a lower tax burden and with a closer proximity to large population bases. As gambling opportunities in the region continue to proliferate, there can be no assurance that we will maintain our state or regional market share or be able to compete effectively with our competitors and this could adversely affect our business, financial condition and overall profitability.

The introduction or expansion of gaming in neighboring jurisdictions, particularly Maryland, Virginia, West Virginia, Washington, D.C., Pennsylvania or New Jersey, the proliferation of internet gaming or the legalization of additional gaming venues in Delaware, could have a material adverse effect on our cash flows and results of operations. Delaware is surrounded by jurisdictions which permit slot machines, such as Pennsylvania, New Jersey, Maryland and West Virginia, and all of these jurisdictions also permit table games.

In recent years, the mid-Atlantic region has witnessed an unprecedented expansion in gaming venues and gaming offerings and many analysts believe that the market is showing signs of saturation, in part due to the fact that new gaming venues often result in a substantial loss of business to existing locations. This is having a significant adverse effect on our visitation numbers, our revenues and our profitability. Management has estimated that approximately 32% of our gaming win comes from Maryland patrons and approximately 64% of our Capital Club® member gaming win comes from out of state patrons.

All states in our geographic region have state-run lotteries. State run lotteries are no longer prohibited by federal law from offering lottery products or other gaming opportunities over the internet or through mobile applications if permitted by state law.

Delaware, Nevada and New Jersey have passed legislation authorizing internet gaming and other states are pursuing or exploring the legalization of internet gaming in various forms – from state run lotteries to privately run casino games, including online poker. States are aggressively seeking new revenue streams through gaming. New Jersey is also pursuing sports betting despite a federal law that prohibits it from doing so.

#### *All Of Our Facilities Are In One Location*

Our gaming facilities are located adjacent to one another at a single location in Dover, Delaware. Any prolonged disruption of operations at these facilities due to damage or destruction, inclement weather, natural disaster, work stoppages or other reasons could adversely affect our financial condition and results of operations. We maintain property and business interruption insurance to protect against certain types of disruption, but there can be no assurance that the proceeds of such insurance would be adequate to repair or rebuild our facilities or to otherwise compensate us for lost profits.

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

Licensing, administration and control of gaming operations in Delaware is under the Delaware State Lottery Office and Delaware's Department of Safety and Homeland Security, Division of Gaming Enforcement. Our gaming license has no expiration date and does not need to be renewed annually. However, to maintain our gaming license, we must remain licensed for harness horse racing by the Delaware Harness Racing Commission and conduct at least 80 live race days each racing season, subject to the availability of harness race horses. Our license from the Racing Commission must be renewed on an annual basis. The Racing Commission has broad discretion to reject any application for a license or suspend or revoke a license once it is issued. The Director of the Delaware State Lottery Office has broad discretion to revoke, suspend or modify the terms of our gaming license. Any modification or termination of existing licensing regulations or any revocation, suspension or modification of our licenses could adversely affect our business, financial condition and overall profitability.

*Our Gaming Activities Are Subject To Extensive Government Regulation And Any Additional Government Regulation Or Taxation Of Gaming Activities Could Substantially Reduce Our Revenue Or Profit*

Slot machine gaming, table games, sports betting, internet gaming, harness horse racing and pari-mutuel wagering are subject to extensive government regulation. Delaware law regulates the win we are entitled to retain and the percentage of commission we are entitled to receive from our gaming revenues, which comprises a significant portion of our overall revenues. The State granted us a license to conduct our gaming operations and a license to conduct harness horse races and pari-mutuel wagering. The laws under which these licenses are granted could be modified or repealed at any time and we could be required to terminate our gaming operations. If we are required to terminate our gaming operations or if the amount of the commission we receive from the State for conducting our gaming operations is decreased, our business operations and overall profitability would be significantly impaired.

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

In June 2012, the State enacted the Delaware Gaming Competitiveness Act of 2012 (the "Act"), under which Delaware's video lottery agents are authorized to offer, through their websites, internet versions of their table games (including poker and bingo) and video lottery offerings. There have been discussions in Congress to regulate various forms of internet gaming and it is possible that new federal laws may preempt state laws relative to the regulation or taxation of internet gaming. Internet gaming may even be proscribed entirely by federal law much as sports betting is proscribed by federal law in all but four states.

In July 2013, the Delaware legislature created a Lottery & Gaming Study Commission responsible for examining the competitive marketplace confronting the Delaware gaming industry, including the business performance and business plans of existing lottery agents, the marketing efforts and investments made by Delaware video lottery agents, and the division of revenue from the video lottery, sports lottery, table games and internet gaming. The Commission's findings and recommendations were released in March 2014 and included: the State sharing certain vendor costs that the three Delaware video lottery agents currently pay associated with slot machines; reducing the State's share of table game win; and eliminating the annual table game license fee. On July 1, 2014, the legislature only enacted a vendor cost sharing recommendation and asked the Commission to reconvene to consider previous and make further recommendations relative to the gaming industry. The Commission's findings and recommendations were released in January 2015 and included: increasing the State's share of vendor costs associated with slot machines; eliminating the annual table game license fee; reducing the State's share of table

game win; and providing each video lottery agent a credit of up to 5% of video lottery proceeds to be used for marketing expenditures and a credit of up to 5% of video lottery proceeds to be used for capital expenditures. These recommendations require legislation in order to be effected.

The Delaware legislature is in session until the end of June and then does not reconvene until the following January. Since Delaware has a fiscal year that ends June 30, it is likely that any legislation will not be effective until July 1, 2015. Without legislative relief, we may be unable to refinance or extend the maturity of our credit facility on favorable terms or may default on our obligations, we may be unable to allocate sufficient resources to marketing and promotions in order to compete effectively in the regional marketplace, we may be unable to allocate sufficient resources to maintaining our facility, and we may be required to take other actions in order to manage expenses - especially with respect to operations that have operated at a loss, such as table games and internet gaming. Such actions could adversely affect our business, financial condition, operating results and cash flow.

We believe that the prospect of significant additional tax revenue is one of the primary reasons why jurisdictions have legalized gaming. As a result, gaming operators are typically subject to significant taxes and fees in addition to normal federal and state corporate income taxes. These taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations and the State's share of our gaming win has been increased several times. In addition, any material increase in taxes or fees, or the adoption of additional taxes or fees, may have a material adverse effect on our future financial results.

We are subject to various federal, state and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Laws and regulations governing the use and development of real estate may delay or complicate any improvements we choose to make and/or increase the costs of any improvements or our costs of operating.

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

Laws and regulations are always subject to change, can be interpreted differently in the future, and new laws and regulations may be enacted which could adversely affect the tax, regulatory, operational or other aspects of our gaming operations. Furthermore, noncompliance with one or more of these laws and regulations could result in the imposition of substantial penalties against us or adversely affect our gaming license.

#### *We Do Not Own Or Lease Our Slot Machines And Related Technology*

We do not own or lease the slot machines or computer systems used by the State in connection with our video lottery gaming operations. The Lottery Director enters into contracts directly with the providers of the slot machines and computer systems and we are not a party to those negotiations. At our expense, the State purchases or leases all equipment and the Lottery Director licenses all technology providers. Similarly, but at no expense to us, the Lottery Director contracts directly with service providers for internet gaming. Our operations could be disrupted if a licensed technology provider violates its agreement with the State or ceases to be licensed for any reason. Such an event would be outside of our control and could adversely affect our gaming revenues.

#### *Due to Our Concentrated Stock Ownership, Stockholders May Have No Effective Voice In Our Management*

We have elected to be treated as a "controlled corporation" as defined by New York Stock Exchange Rule 303A. We are a controlled corporation because a single person, Henry B. Tippie, the Chairman of our Board of Directors, controls in excess of fifty percent of our voting power. This means that he has the ability to determine the outcome of the election of directors at our annual meetings and to determine the outcome of many significant corporate transactions, many of which only require the approval of a majority of our voting power. Such a concentration of voting power could also have the effect of delaying or preventing a third party from acquiring us at

a premium. In addition, as a controlled corporation, we are not required to comply with certain New York Stock Exchange rules.

*Our Success Depends on the Availability and Performance of Key Personnel*

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

We undertake no obligation to publicly update or revise any forward-looking statements as a result of future developments, events or conditions. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ significantly from those forecast in any forward-looking statements. Given these risks and uncertainties, stockholders should not overly rely or attach undue weight to our forward-looking statements as an indication of our actual future results.

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

On October 28, 2014, we were notified by the New York Stock Exchange (“NYSE”) that the average closing price of our common stock had fallen below \$1.00 per share over a period of 30 consecutive trading days, which is the minimum average share price for continued listing on the NYSE under the NYSE Listed Company Manual.

Under NYSE rules, we have six months following receipt of the notification, subject to possible extension, to regain compliance with the minimum share price requirement or be subject to delisting. We can also regain compliance at any time during the six-month cure period if our common stock has a closing share price of at least \$1.00 on the last trading day of any calendar month during the period and also has an average closing share price of at least \$1.00 over the 30-trading day period ending on the last trading day of that month.

Our common stock, continues to trade on the NYSE under the symbol “DDE” but is assigned a “.BC” indicator by the NYSE to signify that we are not currently in compliance with NYSE continued listing standards.

On October 29, 2014, we notified the NYSE of our intent to cure this price deficiency. We will monitor the price for our common stock and will consider available options to resolve the deficiency and regain compliance with the NYSE listing standards.

If we are not able to regain compliance with NYSE listing standards, our stock will be delisted from trading on the NYSE. The delisting of our stock from trading on the NYSE would result in the need to find another market on which our stock can be listed or cause our stock to cease trading on an active market, which could result in a reduction in the liquidity for our stock and a reduction in demand for our stock.

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.

**Item 1B. Unresolved Staff Comments**

We have not received any written comments that were issued within 180 days before December 31, 2014, the end of the fiscal year covered by this report, from the SEC staff regarding our periodic or current reports under the Securities Exchange Act of 1934 that remain unresolved.

## **Item 2. Properties**

We own our principal executive office located in Dover, Delaware and the Dover Downs Hotel & Casino. The casino is a 165,000-square foot complex featuring popular table games, including craps, roulette and card games such as blackjack, Spanish 21, baccarat, 3-card and pai gow poker, the latest in slot machine offerings, multi-player electronic table games, the Crown Royal poker room, and our Race & Sports Book operation. The hotel is a 500 room AAA Four Diamond hotel with conference, banquet, ballroom and concert hall facilities. We have a perpetual easement to Dover Downs Raceway – our harness racing track. Our casino offers pari-mutuel wagering on live racing from this raceway and simulcast horse races. The casino facility includes the Dover Downs' Fire & Ice Lounge, the Festival Buffet, Doc Magrogan's Oyster House, Frankie's Italian restaurant, as well as several bars, restaurants and four retail outlets, all of which are located at our entertainment complex situated on approximately 69 acres of owned land.

Prior to our spin-off from DVD in 2002, both companies shared certain real property in Dover, Delaware. At the time of the spin-off, some of this real property was transferred to us to ensure that the real property holdings of each company was aligned with its past uses and future business needs. During our harness racing season, we have historically used the 5/8-mile harness racing track that is located on DVD's property and is on the inside of its one-mile motorsports superspeedway. In order to continue this historic use, DVD granted a perpetual easement to the harness track to us at the time of the spin-off. This perpetual easement allows us to have exclusive use of the harness track during the period beginning November 1 of each year and ending April 30 of the following year, together with set up and tear down rights for the two weeks before and after such period. The easement requires that we maintain the harness track but does not require the payment of any rent.

Various easements and agreements relative to access, utilities and parking have also been entered into between us and DVD relative to our respective Dover, Delaware facilities. DVD pays rent to us for the lease of its principal executive office space. We also allow DVD to use our indoor grandstands in connection with DVD's two annual motorsports weekends. We do not assess rent for this nominal use and may discontinue the use at our discretion.

### **Intellectual Property**

We have various registered and common law trademark rights, including, but not limited to, "Dover Downs Gaming & Entertainment," "Dover Downs," "Dover Downs Hotel & Casino," "Capital Club," "Capital Gold," "Capital Platinum," "Capital Elite," "Delaware Poker Championship," "Come Play!," "UNREEL," "Wonder Spin," "Sweet Perks," "Gazebo Bar," "Winners Circle," "Michele's" and "Rollins Center." We also have limited rights to use the names and logos of other businesses in connection with promoting our facilities and special events at those facilities. Due to the value of our intellectual property rights for promotional purposes, it is our intention to vigorously protect these rights, through litigation, if necessary.

## **Item 3. 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 4. Mine Safety Disclosures**

Not applicable.

## **Executive Officers Of The Registrant**

See Part III, Item 10 of this Annual Report on Form 10-K for information about our executive officers.

## Part II

### **Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities**

Our common stock is listed on the New York Stock Exchange under the ticker symbol “DDE.” Our Class A common stock is not publicly traded but is freely convertible on a one-for-one basis into common stock at any time at the option of the holder thereof. As of February 27, 2015, there were 18,034,197 shares of common stock and 14,870,673 shares of Class A common stock outstanding. There were 669 holders of record for common stock and 19 holders of record for Class A common stock.

The high and low sales prices for our common stock on the New York Stock Exchange and the dividends declared per share for the years ended December 31, 2014 and 2013 are detailed in the following table.

<b><u>Quarter Ended:</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Dividends Declared</u></b>
December 31, 2014	\$ 1.16	\$ 0.65	\$ —
September 30, 2014	\$ 1.43	\$ 0.95	\$ —
June 30, 2014	\$ 1.57	\$ 1.31	\$ —
March 31, 2014	\$ 1.70	\$ 1.45	\$ —
December 31, 2013	\$ 1.87	\$ 1.35	\$ —
September 30, 2013	\$ 1.74	\$ 1.22	\$ —
June 30, 2013	\$ 2.10	\$ 1.51	\$ —
March 31, 2013	\$ 2.58	\$ 2.00	\$ —

On October 28, 2014, we were notified by the New York Stock Exchange (“NYSE”) that the average closing price of our common stock had fallen below \$1.00 per share over a period of 30 consecutive trading days, which is the minimum average share price for continued listing on the NYSE. Under NYSE rules, we have six months following receipt of the notification, subject to possible extension, to regain compliance with the minimum share price requirement or be subject to delisting. We will monitor the price for our common stock and will consider available options to resolve the deficiency and regain compliance with the NYSE listing standards. If we are not able to regain compliance, our stock will be delisted from trading on the NYSE. This would result in the need to find another market on which our stock can be listed or cause our stock to cease trading on an active market, which could result in a reduction in the liquidity for our stock and a reduction in demand for our stock.

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

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during 2014. At December 31, 2014, we had remaining repurchase authority of 1,653,333 shares. At present we are not permitted to make such purchases under our credit facility.

### **Item 6. Selected Financial Data**

Not applicable.

## **Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

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

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

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

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

On June 28, 2012, the State enacted the Delaware Gaming Competitiveness Act of 2012 (the "Act"), under which Delaware's video lottery agents are authorized to offer, through their websites, internet versions of their table games (including poker) and video lottery offerings. All games remain under the control and operation of the Delaware Lottery. We began offering internet gaming in the fourth quarter of 2013; to date operating results from internet gaming have not been material.

Approximately 90% of our revenue is gaming revenue. Several factors contribute to the win for any gaming company, including, but not limited to:

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

Our entertainment complex is located in Dover, the capital of the State of Delaware. We draw patrons from several major metropolitan areas. Philadelphia, Baltimore and Washington, D.C. are all within a two hour drive. According to the 2010 United States Census, approximately 36.8 million people live within 150 miles of our complex. There are significant barriers to entry related to the gaming business in Delaware. By law, currently only the three existing horse racing facilities in the State are allowed to have a video lottery gaming license. In recent years, additional gaming venues have opened in Maryland, Pennsylvania and New Jersey and more are expected to open. These venues are having a significant adverse effect on our visitation numbers, our revenues and our profitability. Our property is similar to properties found in the country's largest gaming markets. Our luxury hotel is the only casino-hotel in Delaware, providing a strong marketing tool, especially to higher-end players. We also utilize our slot marketing system to allow for more efficient marketing programs and the highest levels of customer service. Our facility offers approximately 35,000 square feet of conference space – the most space of any hotel in Delaware.

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

## **Results of Operations**

Gaming revenues represent (i) the net win from slot machine, table games, internet gaming and sports wagering and (ii) commissions from pari-mutuel wagering. Other operating revenues consist of hotel rooms revenue, food and beverage sales and other miscellaneous income. Revenues do not include the retail amount of hotel rooms, food and beverage and other miscellaneous goods and services provided without charge to customers as promotional items. The estimated direct cost of providing these items has been charged to the casino through interdepartmental allocations and is included in gaming expenses in the consolidated statement of operations.

For the casino operations, the difference between the amount wagered by bettors and the amount paid out to bettors is referred to as the win. The win is included in the amount recorded in our consolidated financial statements as gaming revenue. The Delaware State Lottery Office sweeps the win from the casino operations, collects the State's share of the win and the amount due to the vendors under contract with the State who provide the slot machines and associated computer systems, collects the amount allocable to purses for harness horse racing and remits the remainder to us as our commission for acting as a Licensed Agent. Gaming expenses include the amounts collected by the State (i) for the State's share of the win, (ii) for remittance to the providers of the slot machines and associated computer systems, and (iii) for harness horse racing purses. We recognize revenues from sports wagering commissions when the event occurs. We recognize revenues from pari-mutuel commissions earned from live harness horse racing and importing of simulcast signals from other race tracks when the race occurs. Revenues from hotel rooms, food and beverage sales and other miscellaneous income are recognized at the time the service is provided.

### *Year Ended December 31, 2014 vs. Year Ended December 31, 2013*

Gaming revenues decreased by \$12,600,000, or 7.3%, to \$160,391,000 in 2014 as a result of lower win from slot machine play and lower table game revenue. We believe that attendance at our facility continues to be negatively impacted from the overall increased competition in regional gaming markets. Inclement weather during the first quarter of 2014 also negatively impacted our gaming operations.

Other operating revenues were \$24,991,000 in 2014 as compared to \$24,240,000 in 2013. Rooms revenue increased \$486,000 to \$6,144,000 in 2014 as compared to \$5,658,000 in 2013 due primarily to higher convention sales. Food and beverage revenues increased \$699,000 to \$15,494,000 in 2014 from \$14,795,000 in 2013 due to continuing growth in our banquet revenues and higher sales in our Festival Buffet and at our concession locations throughout the Firefly Music Festival which is held on Dover International Speedway's property adjacent to us. These increases were partially offset by lower revenues in many of our other food and beverage outlets from the lower casino attendance. Additionally, we held fewer live concert and boxing events in 2014 as compared to the prior year which partially offset the increases in rooms and food and beverage revenues. Other operating revenues do not include the retail amount of promotional allowances which are provided to customers on a complimentary basis of \$18,241,000 and \$19,905,000 in 2014 and 2013, respectively.

Gaming expenses decreased by \$10,964,000 primarily from lower gaming taxes as a result of the lower gaming revenues and the reduction in our video lottery vendor costs from legislation that became effective on July 1, 2014. Marketing and other expenses were also lower in 2014.

Other operating expenses increased to \$17,808,000 in 2014 from \$17,314,000 in 2013 due to the higher other operating revenues.

We recorded a \$358,000 non-cash, pre-tax impairment charge in 2014 to adjust the carrying value of the long-lived assets of our Herschel's 34 Chicken & Ribs Kitchen to estimated fair value.

General and administrative expenses increased slightly to \$5,711,000 in 2014 as compared to \$5,645,000 in 2013.

Depreciation expense decreased to \$9,128,000 in 2014 from \$9,726,000 in 2013 as a result of certain assets becoming fully depreciated.

Interest expense decreased by \$65,000 primarily due to lower outstanding borrowings in 2014. This decrease was partially offset by higher interest rates in 2014.

Our effective income tax rate was (5.1%) in 2014 as compared to 96.7% in 2013. The rates in 2014 and 2013 were impacted by the non-deductible portion of the restricted stock awards that vested during the first quarter of 2014 and 2013 and also our net loss in 2014.

#### *Year Ended December 31, 2013 vs. Year Ended December 31, 2012*

Gaming revenues decreased by \$30,064,000, or 14.8%, to \$172,991,000 in 2013 as a result of lower win from slot machine play and to a lesser extent lower table game revenue. We believe that the decrease was primarily due to lower attendance at our facility from the opening of a large casino at Arundel Mills Mall in Maryland in June 2012, their subsequent expansion in September 2012 and addition of table games in April 2013, and overall increased competition in regional gaming markets.

Other operating revenues were \$24,240,000 in 2013 as compared to \$22,857,000 in 2012. Rooms revenue increased \$788,000 to \$5,658,000 in 2013 as compared to \$4,870,000 in 2012 primarily due to higher convention sales, casino customer sales and corporate rate sales. Food and beverage revenues increased \$623,000 to \$14,795,000 in 2013 from \$14,172,000 in 2012 primarily due to the opening of Herschel's in February 2013 and higher banquet sales. These increases were partially offset by lower revenues in many of our other food and beverage outlets from the lower casino attendance. Other operating revenues do not include the retail amount of promotional allowances which are provided to customers on a complimentary basis of \$19,905,000 and \$20,471,000 in 2013 and 2012, respectively.

Gaming expenses decreased by \$20,553,000 primarily from lower gaming taxes as a result of the lower gaming revenues. License fees and other expenses were also lower in 2013. On June 28, 2012, the State enacted the Delaware Gaming Competitiveness Act of 2012 which among other things eliminated and restructured certain license fees currently paid by video lottery agents.

Other operating expenses increased to \$17,314,000 in 2013 from \$16,359,000 in 2012 primarily due to the opening of Herschel's partially offset by lower expenses in many of our other food and beverage outlets.

General and administrative expenses decreased to \$5,645,000 in 2013 as compared to \$6,034,000 in 2012 primarily from lower employee wages and benefits costs and reduced legal expenses.

Depreciation expense decreased to \$9,726,000 in 2013 as compared to \$10,297,000 in 2012 as a result of certain assets becoming fully depreciated.

Interest expense decreased by \$53,000 due to lower outstanding borrowings during the period. This decrease in interest expense from the lower borrowings was partially offset by higher interest rates and increased amortization of credit facility origination fees in 2013.

Our effective income tax rate was 96.7% in 2013 as compared to 43.2% in 2012. The high rate in 2013 was the result of the impact the non-deductible portion of the restricted stock awards that vested during the first quarter of 2013 had on our lower pre-tax earnings.

#### **Liquidity and Capital Resources**

Net cash provided by operating activities was \$6,280,000 in 2014 compared to \$11,137,000 in 2013. The decrease in net cash from operating activities was primarily due to the timing of payments to the Delaware State Lottery Office for its portion of the slot win, the timing of payments to vendors and lower earnings before depreciation.

Net cash used in investing activities was \$909,000 in 2014 compared to \$1,506,000 in 2013 and was primarily related to capital improvements in both periods. Capital expenditures in 2014 related primarily to information systems and facility and equipment upgrades. Capital expenditures in 2013 related to assets purchased for our food and beverage operations and casino and hotel facility improvements.

Net cash used in financing activities was \$8,242,000 in 2014 compared to \$11,674,000 in 2013. During 2014, we had net repayments of \$8,030,000 on our credit facility compared to \$11,460,000 during 2013. We repurchased and retired \$104,000 of our outstanding common stock during 2014 compared to \$144,000 during 2013. These purchases were made from employees in connection with the vesting of restricted stock awards under our stock incentive plan. As a result of amending our credit agreement in August 2014 and March 2013, we paid \$108,000 and \$70,000 in bank fees, respectively.

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during 2014 or 2013. At December 31, 2014, we had remaining repurchase authority of 1,653,333 shares. At present we are not permitted to make such purchases under our credit facility.

Based on current business conditions, we expect to make capital expenditures of approximately \$2,000,000 to \$2,500,000 during 2015. Additionally, we expect to contribute approximately \$425,000 to our pension plans in 2015.

On August 14, 2014, we modified our credit agreement with our bank group. The credit facility was modified to: extend the maturity date to September 30, 2015; provide the bank group with a mortgage on and security interest in all real and personal property owned by our wholly owned subsidiary Dover Downs, Inc.; adjust the maximum borrowing limit to \$55,000,000 as of August 14, 2014, to \$50,000,000 as of December 31, 2014 and to \$47,500,000 as of June 30, 2015; and modify the required maximum ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the "leverage ratio") and the minimum consolidated earnings before interest, taxes, depreciation and amortization requirement. Interest is based upon LIBOR plus a margin that varies between 150 and 350 basis points (300 basis points at December 31, 2014) depending on the leverage ratio. Material adverse changes in our results of operations could impact our ability to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause and prohibits the payment of dividends. The credit facility provides for seasonal funding needs, capital improvements and other general corporate purposes. At December 31, 2014, there was \$39,010,000 outstanding at a weighted average interest rate of 3.17% and \$10,990,000 was available pursuant to the facility. Additionally, we were in compliance with all terms of the facility at December 31, 2014 and we expect to be in compliance with the financial covenants and all other covenants for all measurement periods through September 30, 2015, the expiration date of the facility.

The credit facility is classified as a current liability as of December 31, 2014 in our consolidated balance sheets as the facility expires on September 30, 2015. We will seek to refinance or extend the maturity of this obligation prior to its expiration date; however, there is no assurance that we will be able to execute this refinancing or extension or, if we are able to refinance or extend this obligation, that the terms of such refinancing or extension would be as favorable as the terms of our existing credit facility. These factors raise substantial doubt about our ability to continue as a going concern.

While we believe that our net cash flows from operating activities and funds available from our credit facility will be sufficient to provide for our working capital needs and capital spending requirements for the foreseeable future, we will need to refinance or extend the maturity of our outstanding credit facility prior to its expiration on September 30, 2015.

In recent years, the mid-Atlantic region has witnessed an unprecedented expansion in gaming venues and gaming offerings. These new venues – particularly a large casino at Arundel Mills Mall in Maryland which opened in June 2012 with slot machines and subsequently added table games in April 2013 – are having a significant adverse effect on our visitation numbers, our revenues and our profitability. Management has estimated that

approximately 32% of our gaming win comes from Maryland patrons and approximately 64% of our Capital Club® member gaming win comes from out-of-state patrons.

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

In June 2012, the State enacted the Delaware Gaming Competitiveness Act of 2012 (the "Act"), under which Delaware's video lottery agents are authorized to offer, through their websites, internet versions of their table games (including poker and bingo) and video lottery offerings. All games remain under the control and operation of the Delaware Lottery. Revenues from the internet versions of table games and video lottery games are distributed generally pursuant to the formula currently applicable to those games physically located within our casino, with the exception that internet service provider costs are deducted first, and the Delaware Lottery retains the first \$3.75 million of state-wide net proceeds. We began offering internet gaming in the fourth quarter of 2013; to date operating results from internet gaming have not been material. Internet lottery games are, at least initially, offered solely to persons located within the State of Delaware. This territorial limitation would not apply to gaming pursuant to an interstate compact, such as the one announced in February 2014 between Delaware and Nevada. Internet gaming participation is limited to persons who meet the age requirements for equivalent non-internet games.

The Act also eliminated the gaming license fee and restructured the table game license fee currently paid by video lottery agents to incentivize agents to make capital expenditures, spend on marketing and promotions, and make debt service payments. In June 2012, we paid a \$2,241,000 table game license fee, which was for the period July 1, 2012 to June 30, 2013. This fee decreased to \$1,017,000 for the period July 1, 2013 to June 30, 2014 and was paid in June 2013. The fee increased slightly to \$1,071,000 for the period July 1, 2014 to June 30, 2015 and was paid in June 2014.

In July 2013, the State enacted a bond and capital improvements bill which appropriated \$8,000,000 to the Department of Finance to be used to offset increases in vendor costs that the three Delaware video lottery agents would otherwise pay for the period July 1, 2013 to June 30, 2014. The State used \$875,000 of the amount appropriated to offset increases in our vendor costs. Additionally, the bill created a Lottery & Gaming Study Commission responsible for examining the competitive marketplace confronting the Delaware gaming industry, including the business performance and business plans of existing lottery agents, the marketing efforts and investments made by Delaware video lottery agents, and the division of revenue from the video lottery, sports lottery, table games and internet gaming. The commission's findings and recommendations were released in March 2014 and included: the State sharing certain vendor costs that the three Delaware video lottery agents currently pay associated with slot machines; reducing the State's share of table game win; and eliminating the annual table game license fee. On July 1, 2014, the Delaware legislature approved the vendor cost sharing recommendation on a permanent basis. The State estimates this will provide \$9,900,000 to be used toward vendor costs for the three Delaware video lottery agents for the fiscal year July 1, 2014 to June 30, 2015. This is being allocated among the three video lottery agents based on their relative portion of industry-wide slot revenues. For 2014, our video lottery vendor costs were reduced by approximately \$1,950,000 as a result of the cost sharing arrangement. The recommendations to reduce the State's share of gross table game revenues and eliminate the table game license fee were not part of the legislation that was passed.

The commission reconvened in September 2014 to consider previous and make further recommendations relative to the gaming industry. The commission's findings and recommendations were released in January 2015 and included: increasing the State's share of vendor costs associated with slot machines; eliminating the annual table game license fee; reducing the State's share of table game win; and providing each video lottery agent a credit of up

to 5% of video lottery proceeds to be used for marketing expenditures and a credit of up to 5% of video lottery proceeds to be used for capital expenditures. These recommendations require legislation in order to be effected.

The Delaware legislature is in session until the end of June and then does not reconvene until the following January. Since Delaware has a fiscal year that ends June 30, it is likely that any legislation will not be effective until July 1, 2015. Without legislative relief, we may be unable to refinance or extend the maturity of our credit facility on favorable terms or may default on our obligations, we may be unable to allocate sufficient resources to marketing and promotions in order to compete effectively in the regional marketplace, we may be unable to allocate sufficient resources to maintaining our facility, and we may be required to take other actions in order to manage expenses - especially with respect to operations that have operated at a loss, such as table games and internet gaming. Such actions could adversely affect our business, financial condition, operating results and cash flow.

### Contractual Obligations

At December 31, 2014, we had the following contractual obligations:

	<u>Total</u>	<u>Payments Due by Period</u>			
		<u>2015</u>	<u>2016 – 2017</u>	<u>2018 – 2019</u>	<u>Thereafter</u>
Revolving line of credit <sup>(a)</sup>	\$39,010,000	\$39,010,000	\$ —	\$ —	\$ —
Estimated interest payments on revolving line of credit <sup>(b)</sup>	928,000	928,000	—	—	—
Pension contributions	425,000	425,000	—	—	—
	<u>\$40,363,000</u>	<u>\$40,363,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<sup>(a)</sup> Our current credit facility expires on September 30, 2015.

<sup>(b)</sup> The future interest payments on our revolving credit agreement were estimated using the current outstanding principal as of December 31, 2014 and current interest rates.

### Related Party Transactions

See NOTE 11 – Related Party Transactions to our consolidated financial statements included elsewhere in this document for a full description of related party transactions.

### Critical Accounting Policies

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

#### *Property and Equipment*

Property and equipment are recorded at cost. Depreciation is provided for financial reporting purposes using the straight-line method over estimated useful lives ranging from 3 to 10 years for furniture, fixtures and equipment and up to 40 years for facilities. These estimates require assumptions that are believed to be reasonable. We perform reviews for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its fair value. Generally, fair value will be determined using valuation techniques such as the present value of future cash flows.

#### *Accrued Pension Cost*

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, expected long-term rate of return on assets and mortality. Changes in these estimates would impact the amounts that we record in our consolidated financial statements and our funding contributions to the plans.

### **Recent Accounting Pronouncements**

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

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

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

### **Item 7A. Quantitative And Qualitative Disclosure About Market Risk**

Not applicable.

### **Item 8. Financial Statements And Supplementary Data**

Our consolidated financial statements and the Report of Independent Registered Public Accounting Firm included in this report are shown on the Index to Consolidated Financial Statements on page 32.

### **Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### *(a) Evaluation of Disclosure Controls and Procedures*

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

Based on their evaluation as of December 31, 2014, 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.

#### *(b) Changes in Internal Control Over Financial Reporting*

There have been no changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2014 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

#### *(c) Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management concluded that our internal

control over financial reporting was effective as of December 31, 2014. KPMG LLP independently assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. KPMG LLP has issued their report which is included herein.

*(d) Report of Independent Registered Public Accounting Firm*

The Board of Directors and Stockholders  
Dover Downs Gaming & Entertainment, Inc.:

We have audited Dover Downs Gaming & Entertainment, Inc.'s (the Company's) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Dover Downs Gaming & Entertainment, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Dover Downs Gaming & Entertainment, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of (loss) earnings and comprehensive (loss) income and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated March 6, 2015 expressed an unqualified opinion on those consolidated financial statements and includes an explanatory paragraph relating to substantial doubt about the Company's ability to continue as a going concern.

KPMG LLP

Philadelphia, Pennsylvania  
March 6, 2015

## **Item 9B. Other Information**

None.

### **Part III**

## **Item 10. Directors, Executive Officers And Corporate Governance**

Except as presented below, biographical information relating to our directors and executive officers, information regarding our audit committee financial experts and information on Section 16(a) Beneficial Ownership Reporting Compliance called for by this Item 10 are incorporated by reference to our Proxy Statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on April 29, 2015.

We have a Code of Business Conduct applicable to all of our employees, including our Chief Executive Officer and Chief Financial Officer. We also have a Code of Business Conduct and Ethics for Directors and Executive Officers and Related Party Transactions Policy applicable to all directors and executive officers. Copies of these Codes and other corporate governance documents are available on our website at [www.doverdowns.com](http://www.doverdowns.com) under the heading Investor Relations. We will post on our website any amendments to, or waivers from, these Codes as required by law.

Executive Officers of the Registrant. As of December 31, 2014, our executive officers were:

<b><u>Name</u></b>	<b><u>Position</u></b>	<b><u>Age</u></b>	<b><u>Term of Office</u></b>
Denis McGlynn	President and Chief Executive Officer	68	11/79 to date
Edward J. Sutor	Executive Vice President and Chief Operating Officer	64	3/99 to date
Timothy R. Horne	Sr. Vice President-Finance, Treasurer and Chief Financial Officer	48	11/96 to date
Klaus M. Belohoubek	Sr. Vice President-General Counsel and Secretary	55	7/99 to date

Our Chairman of the Board, Henry B. Tippie, is a non-employee director and, therefore, not an executive officer. Mr. Tippie has served as Chairman of the Board since our spin-off from DVD in 2002. Mr. Tippie also serves as Chairman of the Board to DVD as a non-employee director.

Denis McGlynn has served as our President and Chief Executive Officer for 35 years. Mr. McGlynn also serves as President and Chief Executive Officer to DVD.

Edward J. Sutor has been Executive Vice President and Chief Operating Officer since 1999. Previously, Mr. Sutor served as Senior Vice President of Finance at Caesars Atlantic City from 1983 until 1999.

Timothy R. Horne has been Sr. Vice President-Finance, Treasurer and Chief Financial Officer since November 1996. Mr. Horne also serves as Sr. Vice President-Finance and Chief Financial Officer to DVD.

Klaus M. Belohoubek has been Sr. Vice President-General Counsel and Secretary since 1999 and has provided us legal representation in various capacities since 1990. Mr. Belohoubek also serves as Sr. Vice President-General Counsel and Secretary to DVD.

## **Item 11. Executive Compensation**

The information called for by this Item 11 is incorporated by reference to our Proxy Statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on April 29, 2015.

## **Item 12. Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters**

The information called for by this Item 12 is incorporated by reference to our Proxy Statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on April 29, 2015.

### **Equity Compensation Plan Information**

We have a stock incentive plan which provides for the grant of up to 2,000,000 shares of common stock to our officers and key employees through stock options and/or awards valued in whole or in part by reference to our common stock, such as restricted stock awards. Refer to NOTE 9 – Stockholders’ Equity to our consolidated financial statements included elsewhere in this document for further discussion. Securities authorized for issuance under equity compensation plans at December 31, 2014 are as follows:

<b><u>Plan Category</u></b>	<b><u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u></b> (a)	<b><u>Weighted-average exercise price of outstanding options, warrants and rights</u></b> (b)	<b><u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u></b> (c)
Equity compensation plans approved by security holders	—	\$ —	563,975
Equity compensation plans not approved by security holders	—	—	—
Total	—	\$ —	563,975

## **Item 13. Certain Relationships And Related Transactions, And Director Independence**

The information called for by this Item 13 is incorporated by reference to our Proxy Statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on April 29, 2015.

## **Item 14. Principal Accounting Fees And Services**

The information called for by this Item 14 is incorporated by reference to our Proxy Statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on April 29, 2015.

### **Part IV**

## **Item 15. Exhibits, Financial Statement Schedules**

- (a)(1) Financial Statements – See accompanying Index to Consolidated Financial Statements on page 32.
- (2) Financial Statement Schedules – None.

(3) Exhibits:

- 2.1 Amended and Restated Agreement Regarding Distribution and Plan of Reorganization, dated as of February 15, 2002, by and between Dover Motorsports, Inc. (formerly known as Dover Downs Entertainment, Inc.) and Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 2.1 to the Form 10 filed on February 26, 2002, which was declared effective on March 7, 2002).
- 3.1 Certificate of Incorporation of Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 3.1 to the Form 10 filed on November 21, 2001, which was declared effective on March 7, 2002).
- 3.2 Amended and Restated By-laws of Dover Downs Gaming & Entertainment, Inc. dated October 23, 2013 (incorporated herein by reference to Exhibit 3.1 to the Form 8-K dated October 23, 2013).
- 4.1 Form of Common Stock Certificate of Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 4.1 to the Form 10 filed on November 21, 2001, which was declared effective on March 7, 2002).
- 4.2 Rights Agreement dated as of January 1, 2012 between Dover Downs Gaming & Entertainment, Inc. and Mellon Investor Services, as Rights Agent (incorporated herein by reference to Exhibit 4.1 to the Form 8-A filed on December 30, 2011).
- 10.1 Transition Support Services Agreement, dated as of January 15, 2002, by and between Dover Motorsports, Inc. (formerly known as Dover Downs Entertainment, Inc.) and Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 10.3 to the Form 10 filed on January 16, 2002, which was declared effective on March 7, 2002).
- 10.2 Real Property Agreement dated as of January 15, 2002, by and between Dover Motorsports, Inc. (formerly known as Dover Downs Entertainment, Inc.) and Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 10.5 to the Form 10 filed on January 16, 2002, which was declared effective on March 7, 2002).
- 10.3 Agreement between Dover Downs, Inc. and Delaware Standardbred Owners Association, Inc. dated July 1, 2014.
- 10.4 Credit Agreement between Dover Downs Gaming and Entertainment, Inc. and RBS Citizens, N.A., as agent, dated as of June 17, 2011 (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on June 23, 2011).
- 10.5 Amendment to Credit Agreement between Dover Downs Gaming and Entertainment, Inc. and RBS Citizens, N.A., as agent, dated as of March 12, 2013 (incorporated herein by reference to Exhibit 10.7 to the Form 10-K filed on March 15, 2013).
- 10.6 Modification and Reaffirmation Agreement between Dover Downs Gaming and Entertainment, Inc. and Citizens Bank, National Association, as agent, dated as of June 12, 2014 (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on June 13, 2014).
- 10.7 Modification and Reaffirmation Agreement between Dover Downs Gaming and Entertainment, Inc., Dover Downs, Inc. and Dover Downs Gaming and Management Corp. and Citizens Bank, National Association, as agent, dated as of August 14, 2014 (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on August 14, 2014).
- 10.8 Amended and Restated Employment and Non-Compete Agreement between Dover Downs Gaming & Entertainment, Inc. and Denis McGlynn dated February 13, 2006 (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on February 17, 2006).

- 10.9 Amended and Restated Employment and Non-Compete Agreement between Dover Downs Gaming & Entertainment, Inc. and Edward J. Sutor dated February 13, 2006 (incorporated herein by reference to Exhibit 10.2 to the Form 8-K filed on February 17, 2006).
- 10.10 Amended and Restated Employment and Non-Compete Agreement between Dover Downs Gaming & Entertainment, Inc. and Timothy R. Horne dated February 13, 2006 (incorporated herein by reference to Exhibit 10.3 to the Form 8-K filed on February 17, 2006).
- 10.11 Amended and Restated Employment and Non-Compete Agreement between Dover Downs Gaming & Entertainment, Inc. and Klaus M. Belohoubek dated February 13, 2006 (incorporated herein by reference to Exhibit 10.4 to the Form 8-K filed on February 17, 2006).
- 10.12 Amendment to certain agreements between Dover Downs Gaming & Entertainment, Inc. and selected executives and directors (incorporated herein by reference to Exhibit 10.1 to the Form 10-Q filed on November 3, 2008).
- 10.13 Amendment to certain agreements between Dover Downs Gaming & Entertainment, Inc. and certain executives dated June 15, 2011 (incorporated herein by reference to Exhibit 2.1 to the Form 8-K dated June 15, 2011).
- 10.14 Non-Compete Agreement between Dover Downs Gaming & Entertainment, Inc. and Henry B. Tippie dated June 16, 2004 (incorporated herein by reference to Exhibit 10.7 to the Form 10-Q filed on August 6, 2004).
- 10.15 Dover Downs Gaming & Entertainment, Inc. 2012 Stock Incentive Plan (incorporated herein by reference to Exhibit A to our Proxy Statement filed on March 30, 2012).
- 10.16 Description of Annual Salary and Certain Discretionary Incentives to Executive Officers (incorporated herein by reference to the Form 8-K dated January 2, 2015).
- 10.17 Dover Downs Gaming & Entertainment, Inc. Supplemental Executive Retirement Savings Plan Dated November 9, 2012 (incorporated herein by reference to Exhibit 10.1 to the Form 10-Q filed on November 9, 2012).
- 21.1 List of Subsidiaries of Dover Downs Gaming & Entertainment, Inc.
- 24.1 Powers of Attorney for Directors
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Information Statement dated as of March 7, 2002 (incorporated herein by reference to Exhibit 99.1 to the Form 10 filed on March 7, 2002).
- 99.2 Audit Committee Charter of Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit B to our Proxy Statement filed on March 30, 2010).

- 101 The following materials from the Dover Downs Gaming & Entertainment, Inc. annual report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (eXtensible Business Reporting Language):
- (i) Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income for the years ended December 31, 2014, 2013 and 2012;
  - (ii) Consolidated Balance Sheets as of December 31, 2014 and 2013;
  - (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012; and
  - (iv) Notes to the Consolidated Financial Statements.

## Signatures

Pursuant to the requirements of Section 13 or 15(d) 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: March 6, 2015

Dover Downs Gaming & Entertainment, Inc.  
Registrant

BY: /s/ Denis McGlynn  
Denis McGlynn  
*President and Chief Executive Officer  
and Director*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>/s/ Denis McGlynn</u> Denis McGlynn	<i>President and Chief Executive Officer and Director (Principal Executive Officer)</i>	March 6, 2015
<u>/s/ Timothy R. Horne</u> Timothy R. Horne	<i>Sr. Vice President – Finance, Treasurer, Chief Financial Officer and Director (Principal Financial and Accounting Officer)</i>	March 6, 2015

The Directors of the registrant (listed below) executed a power of attorney appointing Denis McGlynn and Timothy R. Horne their attorneys-in-fact, empowering either of them to sign this report, or any amendments, on their behalf.

<u>/s/ Henry B. Tippie</u> Henry B. Tippie	<i>Chairman of the Board</i>	March 6, 2015
<u>/s/ Patrick J. Bagley</u> Patrick J. Bagley	<i>Director and Chairman of the Audit Committee</i>	March 6, 2015
<u>/s/ Jeffrey W. Rollins</u> Jeffrey W. Rollins	<i>Director</i>	March 6, 2015
<u>/s/ R. Randall Rollins</u> R. Randall Rollins	<i>Director</i>	March 6, 2015
<u>/s/ Richard K. Struthers</u> Richard K. Struthers	<i>Director</i>	March 6, 2015
<u>/s/ Denis McGlynn</u> Denis McGlynn	<i>As Attorney-in-Fact and Director</i>	March 6, 2015

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Dover Downs Gaming & Entertainment, Inc.:

We have audited the accompanying consolidated balance sheets of Dover Downs Gaming & Entertainment, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of (loss) earnings and comprehensive (loss) income and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dover Downs Gaming & Entertainment, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2 to the consolidated financial statements, the Company's credit facility expires on September 30, 2015 and at present no agreement has been reached to refinance the debt, which raises substantial doubt about the Company's ability to continue as a going concern. Management's plan in regard to this matter is also described in note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Dover Downs Gaming & Entertainment, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Philadelphia, Pennsylvania  
March 6, 2015

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

**CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS  
AND COMPREHENSIVE (LOSS) INCOME  
(in thousands, except per share data)**

	<b>Years ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Revenues:			
Gaming.....	\$160,391	\$172,991	\$203,055
Other operating .....	<u>24,991</u>	<u>24,240</u>	<u>22,857</u>
	<u>185,382</u>	<u>197,231</u>	<u>225,912</u>
Expenses:			
Gaming.....	151,434	162,398	182,951
Other operating .....	17,808	17,314	16,359
Impairment charge .....	358	—	—
General and administrative .....	5,711	5,645	6,034
Depreciation .....	<u>9,128</u>	<u>9,726</u>	<u>10,297</u>
	<u>184,439</u>	<u>195,083</u>	<u>215,641</u>
Operating earnings .....	943	2,148	10,271
Interest expense.....	<u>(1,687)</u>	<u>(1,752)</u>	<u>(1,805)</u>
(Loss) earnings before income taxes.....	(744)	396	8,466
Income tax benefit (expense).....	<u>38</u>	<u>(383)</u>	<u>(3,659)</u>
Net (loss) earnings .....	(706)	13	4,807
Unrealized gain on interest rate swap, net of income taxes.....	—	—	83
Unrealized gain on available-for-sale securities, net of income taxes.....	2	11	12
Change in pension net actuarial loss and prior service cost, net of income taxes .....	<u>(3,588)</u>	<u>2,142</u>	<u>(1,059)</u>
Comprehensive (loss) income.....	<u>\$ (4,292)</u>	<u>\$ 2,166</u>	<u>\$ 3,843</u>
Net (loss) earnings per common share (Note 3):			
Basic.....	<u>\$ (0.02)</u>	<u>\$ —</u>	<u>\$ 0.15</u>
Diluted.....	<u>\$ (0.02)</u>	<u>\$ —</u>	<u>\$ 0.15</u>

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

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

**CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current assets:		
Cash.....	\$ 10,079	\$ 12,950
Accounts receivable .....	3,838	4,248
Due from State of Delaware .....	7,258	8,225
Inventories.....	1,783	1,957
Prepaid expenses and other .....	2,324	2,432
Receivable from Dover Motorsports, Inc. ....	22	—
Income taxes receivable.....	6	138
Deferred income taxes .....	<u>1,243</u>	<u>1,268</u>
Total current assets .....	26,553	31,218
Property and equipment, net .....	152,107	160,570
Other assets .....	752	932
Deferred income taxes .....	<u>404</u>	<u>—</u>
Total assets .....	<u>\$179,816</u>	<u>\$192,720</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable.....	\$ 3,975	\$ 4,480
Purses due horsemen.....	6,917	7,978
Accrued liabilities .....	8,196	10,513
Payable to Dover Motorsports, Inc. ....	—	4
Deferred revenue.....	389	463
Revolving line of credit .....	<u>39,010</u>	<u>47,040</u>
Total current liabilities .....	58,487	70,478
Liability for pension benefits .....	8,980	3,353
Deferred income taxes .....	<u>—</u>	<u>2,725</u>
Total liabilities .....	<u>67,467</u>	<u>76,556</u>
Commitments and contingencies (see Notes to the Consolidated Financial Statements)		
Stockholders' equity:		
Preferred stock, \$.10 par value; 1,000,000 shares authorized; shares issued and outstanding: none .....	—	—
Common stock, \$.10 par value; 74,000,000 shares authorized; shares issued and outstanding: 17,880,650 and 17,736,479, respectively.....	1,788	1,774
Class A common stock, \$.10 par value; 50,000,000 shares authorized; shares issued and outstanding: 14,870,673 and 14,870,673, respectively.....	1,487	1,487
Additional paid-in capital .....	5,125	4,663
Retained earnings.....	108,629	109,335
Accumulated other comprehensive loss.....	<u>(4,680)</u>	<u>(1,095)</u>
Total stockholders' equity.....	<u>112,349</u>	<u>116,164</u>
Total liabilities and stockholders' equity.....	<u>\$179,816</u>	<u>\$192,720</u>

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

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Years ended December 31,		
	2014	2013	2012
Operating activities:			
Net (loss) earnings .....	\$ (706)	\$ 13	\$ 4,807
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:			
Depreciation .....	9,128	9,726	10,297
Amortization of credit facility origination fees .....	133	183	101
Stock-based compensation .....	580	682	793
Deferred income taxes .....	(723)	(519)	(318)
Impairment charge .....	358	—	—
Gain from insurance settlement .....	—	(22)	—
Changes in assets and liabilities:			
Accounts receivable .....	410	(155)	(111)
Due from State of Delaware .....	967	1,483	(268)
Inventories.....	174	(36)	(61)
Prepaid expenses and other.....	154	662	310
Receivable from/payable to Dover Motorsports, Inc.....	(26)	4	(11)
Income taxes receivable/payable .....	114	(138)	(928)
Accounts payable .....	(505)	915	(470)
Purses due horsemen.....	(1,061)	(1,855)	829
Accrued liabilities .....	(2,369)	152	(1,571)
Deferred revenue.....	(74)	117	92
Liability for pension benefits.....	(274)	(75)	(325)
Net cash provided by operating activities.....	<u>6,280</u>	<u>11,137</u>	<u>13,166</u>
Investing activities:			
Capital expenditures.....	(900)	(1,574)	(2,625)
Purchase of available-for-sale securities.....	(35)	(37)	—
Proceeds from the sale of available-for-sale securities.....	26	31	—
Insurance settlement proceeds .....	—	74	—
Net cash used in investing activities.....	<u>(909)</u>	<u>(1,506)</u>	<u>(2,625)</u>
Financing activities:			
Borrowings from revolving line of credit.....	94,530	72,160	19,620
Repayments of revolving line of credit.....	(102,560)	(83,620)	(30,120)
Repurchase of common stock .....	(104)	(144)	(107)
Credit facility fees.....	(108)	(70)	—
Dividends paid .....	—	—	(3,575)
Net cash used in financing activities.....	<u>(8,242)</u>	<u>(11,674)</u>	<u>(14,182)</u>
Net decrease in cash.....	(2,871)	(2,043)	(3,641)
Cash, beginning of year .....	<u>12,950</u>	<u>14,993</u>	<u>18,634</u>
Cash, end of year.....	<u>\$ 10,079</u>	<u>\$ 12,950</u>	<u>\$ 14,993</u>
Supplemental information:			
Interest paid.....	<u>\$ 1,589</u>	<u>\$ 1,524</u>	<u>\$ 1,728</u>
Income tax payments .....	<u>\$ 569</u>	<u>\$ 1,041</u>	<u>\$ 4,904</u>

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

## DOVER DOWNS GAMING & ENTERTAINMENT, INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1—Business Operations

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

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

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

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

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

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

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

Our license from the Delaware Harness Racing Commission (the “Commission”) to hold harness race meetings on our premises and to offer pari-mutuel wagering on live and simulcast horse races must be renewed on an annual basis. In order to maintain our gaming license, we are required to maintain our harness horse racing license. We have received an annual license from the Commission for the past 46 consecutive years and management believes that our relationship with the Commission remains good.

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

In recent years, the mid-Atlantic region has witnessed an unprecedented expansion in gaming venues and gaming offerings. This is having a significant adverse effect on our visitation numbers, our revenues and our profitability. Management has estimated that approximately 32% of our gaming win comes from Maryland patrons and approximately 64% of our Capital Club® member gaming win comes from out of state patrons.

In June 2012, the State enacted the Delaware Gaming Competitiveness Act of 2012 (the “Act”), under which Delaware's video lottery agents are authorized to offer, through their websites, internet versions of their table games (including poker and bingo) and video lottery offerings. All games remain under the control and operation of the Delaware Lottery. Revenues from the internet versions of table games and video lottery games are distributed generally pursuant to the formula currently applicable to those games physically located within our casino, with the exception that internet service provider costs are deducted first, and the Delaware Lottery retains the first \$3.75 million of state-wide net proceeds. We began offering internet gaming in the fourth quarter of 2013; to date operating results from internet gaming have not been material. Internet lottery games are, at least initially, offered solely to persons located within the State of Delaware. This territorial limitation would not apply to gaming pursuant to an interstate compact, such as the one announced in February 2014 between Delaware and Nevada. Internet gaming participation is limited to persons who meet the age requirements for equivalent non-internet games.

The Act also eliminated the gaming license fee and restructured the table game license fee currently paid by video lottery agents to incentivize agents to make capital expenditures, spend on marketing and promotions, and make debt service payments. In June 2012, we paid a \$2,241,000 table game license fee, which was for the period July 1, 2012 to June 30, 2013. This fee decreased to \$1,017,000 for the period July 1, 2013 to June 30, 2014 and was paid in June 2013. The fee increased slightly to \$1,071,000 for the period July 1, 2014 to June 30, 2015 and was paid in June 2014.

In July 2013, the State enacted a bond and capital improvements bill which appropriated \$8,000,000 to the Department of Finance to be used to offset increases in vendor costs that the three Delaware video lottery agents would otherwise pay for the period July 1, 2013 to June 30, 2014. The State used \$875,000 of the amount appropriated to offset increases in our vendor costs. Additionally, the bill created a Lottery & Gaming Study Commission responsible for examining the competitive marketplace confronting the Delaware gaming industry, including the business performance and business plans of existing lottery agents, the marketing efforts and investments made by Delaware video lottery agents, and the division of revenue from the video lottery, sports lottery, table games and internet gaming. The commission's findings and recommendations were released in March 2014 and included: the State sharing certain vendor costs that the three Delaware video lottery agents currently pay associated with slot machines; reducing the State's share of table game win; and eliminating the annual table game license fee. On July 1, 2014, the Delaware legislature approved the vendor cost sharing recommendation on a permanent basis. The State estimates this will provide \$9,900,000 to be used toward vendor costs for the three Delaware video lottery agents for the fiscal year July 1, 2014 to June 30, 2015. This is being allocated among the three video lottery agents based on their relative portion of industry-wide slot revenues. For 2014, our video lottery vendor costs were reduced by approximately \$1,950,000 as a result of the cost sharing arrangement. The recommendations to reduce the State's share of gross table game revenues and eliminate the table game license fee were not part of the legislation that was passed.

The commission reconvened in September 2014 to consider previous and make further recommendations relative to the gaming industry. The commission's findings and recommendations were released in January 2015 and included: increasing the State's share of vendor costs associated with slot machines; eliminating the annual table game license fee; reducing the State's share of table game win; and providing each video lottery agent a credit of up to 5% of video lottery proceeds to be used for marketing expenditures and a credit of up to 5% of video lottery proceeds to be used for capital expenditures. These recommendations require legislation in order to be effected.

The Delaware legislature is in session until the end of June and then does not reconvene until the following January. Since Delaware has a fiscal year that ends June 30, it is likely that any legislation will not be effective until July 1, 2015. Without legislative relief, we may be unable to refinance or extend the maturity of our credit facility on favorable terms or may default on our obligations, we may be unable to allocate sufficient resources to marketing and promotions in order to compete effectively in the regional marketplace, we may be unable to allocate sufficient resources to maintaining our facility, and we may be required to take other actions in order to manage expenses -

especially with respect to operations that have operated at a loss, such as table games and internet gaming. Such actions could adversely affect our business, financial condition, operating results and cash flow.

In February 2013, we opened a Herschel's 34 Chicken & Ribs Kitchen in Athens, Georgia. Herschel's was a 110-seat sports-themed restaurant owned and operated by us on approximately 4,100 square feet of leased property. During the fourth quarter of 2014, management made the decision to sell the assets of Herschel's. As a result, we concluded that it was necessary for us to review the carrying value of the long-lived assets for impairment. Based on the results of this analysis, we recorded a non-cash, pre-tax impairment charge of \$358,000 in the fourth quarter of 2014 to adjust the carrying value of the long-lived assets of Herschel's to estimated fair value. In January of 2015, we closed Herschel's and are currently in the process of disposing of its assets.

## **NOTE 2—Going Concern**

At December 31, 2014, we had a credit agreement with a bank group (see NOTE 6 – Credit Facility). The maximum borrowing limit under the facility was \$50,000,000 as of December 31, 2014 and the facility expires September 30, 2015. At December 31, 2014 there was \$39,010,000 outstanding under the facility. The credit facility is classified as a current liability as of December 31, 2014 in our consolidated balance sheets as the facility expires on September 30, 2015. We will seek to refinance or extend the maturity of this obligation prior to its expiration date; however, there is no assurance that we will be able to execute this refinancing or extension or, if we are able to refinance or extend this obligation, that the terms of such refinancing or extension would be as favorable as the terms of our existing credit facility. These factors raise substantial doubt about our ability to continue as a going concern. The accompanying financial statements have been prepared assuming that we will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. The report from our independent registered public accountants, KPMG LLP, dated March 6, 2015, includes an explanatory paragraph related to our ability to continue as a going concern.

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

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

*Accounts receivable*—Accounts receivable are stated at their estimated collectible amount and primarily consist of casino, hotel and other receivables which arise in the normal course of business. We issue credit in the form of “markers” to approved casino customers who are investigated as to their credit worthiness.

*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 9 – Stockholders' Equity and NOTE 10 – Fair Value Measurements for further discussion.

*Derivative Instruments and Hedging Activities*—We are subject to interest rate risk on the variable component of the interest rate under our revolving credit agreement. Effective January 15, 2009, we entered into a \$35,000,000 interest rate swap agreement. We designated the interest rate swap as a cash flow hedge. Changes in the fair value of the effective portion of the interest rate swap were recognized in other comprehensive income (loss) until the hedged item was recognized in earnings. The interest rate swap expired in April 2012. See NOTE 6 – Credit Facility and NOTE 10 – Fair Value Measurements for further discussion.

*Inventories*—Inventories consisting primarily of food, beverage and operating supplies are stated at the lower of cost or market with cost being determined on the first-in, first-out basis.

*Property and equipment*—Property and equipment is stated at cost. Depreciation is provided for financial reporting purposes using the straight-line method over the following estimated useful lives:

Facilities	10-40 years
Furniture, fixtures and equipment	3-10 years

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

*Income taxes*—Deferred income taxes are provided on all differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements based upon enacted statutory tax rates in effect at the balance sheet date. Tax years after 2010 remain open to examination for federal and state income tax purposes.

*Point loyalty program*—We currently have a point loyalty program for our customers which allows them to earn points based on the volume of their gaming activity. All reward points earned by customers are expensed in the period they are earned. The estimated amount of points redeemable for cash is recorded as a reduction of gaming revenue and the estimated amount of points redeemable for services and merchandise is recorded as gaming expense. In determining the amount of the liability, which was \$1,777,000 and \$1,930,000, respectively, at December 31, 2014 and 2013, we estimate a redemption rate, a cost of rewards to be offered and the mix of cash, goods and services for which reward points will be redeemed. We use historical data to estimate those amounts.

*Revenue and expense recognition*—Gaming revenues represent (i) the net win from slot machine, table games, internet gaming and sports wagering and (ii) commissions from pari-mutuel wagering. Other operating revenues consist of hotel rooms revenue, food and beverage sales and other miscellaneous income. Revenues do not include the retail amount of hotel rooms, food and beverage and other miscellaneous goods and services provided without charge to customers as promotional items of \$18,241,000, \$19,905,000 and \$20,471,000 for the years ended December 31, 2014, 2013 and 2012, respectively. The estimated direct cost of providing these items has been charged to the casino through interdepartmental allocations and is included in gaming expenses in the consolidated statements of earnings.

For the casino operations, the difference between the amount wagered by bettors and the amount paid out to bettors is referred to as the win. The win is included in the amount recorded in our consolidated financial statements as gaming revenue. The Delaware State Lottery Office sweeps the win from the casino operations, collects the State's share of the win and the amount due to the vendors under contract with the State who provide the slot machines and associated computer systems, collects the amount allocable to purses for harness horse racing and remits the remainder to us as our commission for acting as a Licensed Agent. Gaming expenses include the amounts collected by the State (i) for the State's share of the win, (ii) for remittance to the providers of the slot machines and associated computer systems, and (iii) for harness horse racing purses. We recognize revenues from sports wagering commissions when the event occurs. We recognize revenues from pari-mutuel commissions earned from live harness horse racing and importing of simulcast signals from other race tracks when the race occurs. Revenues from hotel rooms, food and beverage sales and other miscellaneous income are recognized at the time the service is provided. Amounts received in advance for hotel rooms, convention bookings and advance ticket sales are recorded as deferred revenue until the services are provided to the customer, at which point revenue is recognized.

*Advertising costs*—The cost of general advertising is charged to operations as incurred. Advertising expenses were \$2,171,000, \$2,209,000 and \$2,211,000 in 2014, 2013 and 2012, respectively.

*Net (loss) earnings 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) 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):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net (loss) earnings per common share – basic:			
Net (loss) earnings	\$ (706)	\$ 13	\$ 4,807
Allocation to nonvested restricted stock awards	<u>—</u>	<u>—</u>	<u>111</u>
Net (loss) earnings available to common stockholders	<u>\$ (706)</u>	<u>\$ 13</u>	<u>\$ 4,696</u>
Weighted-average shares outstanding	<u>31,961</u>	<u>31,849</u>	<u>31,745</u>
Net (loss) earnings per common share – basic	<u>\$ (0.02)</u>	<u>\$ —</u>	<u>\$ 0.15</u>
Net (loss) earnings per common share – diluted:			
Net (loss) earnings	\$ (706)	\$ 13	\$ 4,807
Allocation to nonvested restricted stock awards	<u>—</u>	<u>—</u>	<u>111</u>
Net (loss) earnings available to common stockholders	<u>\$ (706)</u>	<u>\$ 13</u>	<u>\$ 4,696</u>
Weighted-average shares and dilutive shares outstanding	<u>31,961</u>	<u>31,849</u>	<u>31,745</u>
Net (loss) earnings per common share – diluted	<u>\$ (0.02)</u>	<u>\$ —</u>	<u>\$ 0.15</u>

There were no options outstanding during 2014, 2013 or 2012 and we paid no dividends in 2014 or 2013.

*Accounting for stock-based compensation*—We recorded total stock-based compensation expense for our restricted stock awards of \$580,000, \$682,000 and \$793,000 as general and administrative expenses for the years ended December 31, 2014, 2013 and 2012, respectively. We recorded income tax benefits of \$51,000, \$69,000 and \$59,000 for the years ended December 31, 2014, 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 adjust such estimates and assumptions when facts and circumstances dictate. Volatility in credit and 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.

*Segment information*—We account for operating segments based on those used for internal reporting to management. We report information under a single gaming and entertainment segment.

*Recent accounting pronouncements*—In April 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-08, “Presentation of Financial Statements: Topic 205 and Property, Plant and Equipment: Topic 360 – Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (“ASU 2014-08”). ASU 2014-08 clarifies the definition of discontinued operations by limiting the discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have or will have a major effect on an entity’s operations and financial results, requires expanded disclosures for discontinued operations, and requires disclosure of the pretax profit or loss of an individually significant component of an entity that does not

qualify for discontinued operations reporting. As permitted, we adopted ASU 2014-08 for the year ended December 31, 2014; it did not have a material impact on our financial position, results of operation, or cash flows.

#### NOTE 4—Property and Equipment

Property and equipment consists of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 785,000	\$ 785,000
Casino facility	76,990,000	76,990,000
Hotel facility	113,577,000	113,565,000
Harness racing facilities	10,983,000	10,983,000
General facilities	16,695,000	16,938,000
Furniture, fixtures and equipment	57,135,000	56,989,000
Construction in progress	<u>123,000</u>	<u>110,000</u>
	276,288,000	276,360,000
Less accumulated depreciation	<u>(124,181,000)</u>	<u>(115,790,000)</u>
	<u>\$152,107,000</u>	<u>\$160,570,000</u>

#### NOTE 5—Accrued Liabilities

Accrued liabilities consist of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Point loyalty program	\$ 1,777,000	\$ 1,930,000
Payroll and related items	1,989,000	2,059,000
Win due to Delaware State Lottery Office	2,124,000	4,610,000
Other	<u>2,306,000</u>	<u>1,914,000</u>
	<u>\$ 8,196,000</u>	<u>\$10,513,000</u>

#### NOTE 6—Credit Facility

On August 14, 2014, we modified our credit agreement with our bank group. The credit facility was modified to: extend the maturity date to September 30, 2015; provide the bank group with a mortgage on and security interest in all real and personal property owned by our wholly owned subsidiary Dover Downs, Inc.; adjust the maximum borrowing limit to \$55,000,000 as of August 14, 2014, to \$50,000,000 as of December 31, 2014 and to \$47,500,000 as of June 30, 2015; and modify the required maximum ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the “leverage ratio”) and the minimum consolidated earnings before interest, taxes, depreciation and amortization requirement. Interest is based upon LIBOR plus a margin that varies between 150 and 350 basis points (300 basis points at December 31, 2014) depending on the leverage ratio. Material adverse changes in our results of operations could impact our ability to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause and prohibits the payment of dividends. The credit facility provides for seasonal funding needs, capital improvements and other general corporate purposes. At December 31, 2014, there was \$39,010,000 outstanding at a weighted average interest rate of 3.17% and \$10,990,000 was available pursuant to the facility. Additionally, we were in compliance with all terms of the facility at December 31, 2014 and we expect to be in compliance with the financial covenants and all other covenants for all measurement periods through September 30, 2015, the expiration date of the facility.

The credit facility is classified as a current liability as of December 31, 2014 in our consolidated balance sheets as the facility expires on September 30, 2015. We will seek to refinance or extend the maturity of this obligation prior to its expiration date; however, there is no assurance that we will be able to execute this refinancing or extension or, if we are able to refinance or extend this obligation, that the terms of such refinancing or extension would be as favorable as the terms of our existing credit facility. These factors raise substantial doubt about our ability to continue as a going concern. The accompanying financial statements have been prepared assuming that we will continue as a going concern and do not include any adjustments that might result from the outcome of this

uncertainty. The report from our independent registered public accountants, KPMG LLP, dated March 6, 2015, includes an explanatory paragraph related to our ability to continue as a going concern.

Effective January 15, 2009, we entered into an interest rate swap agreement that effectively converted \$35,000,000 of our then variable-rate debt to a fixed-rate basis, thereby hedging against the impact of potential interest rate changes on future interest expense. The agreement terminated on April 17, 2012.

#### NOTE 7—Income Taxes

The current and deferred income tax benefit (expense) is as follows:

	<u>Years ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current:			
Federal	\$ (503,000)	\$ (616,000)	\$ (3,034,000)
State	<u>(182,000)</u>	<u>(286,000)</u>	<u>(943,000)</u>
	<u>(685,000)</u>	<u>(902,000)</u>	<u>(3,977,000)</u>
Deferred:			
Federal	623,000	331,000	174,000
State	<u>100,000</u>	<u>188,000</u>	<u>144,000</u>
	<u>723,000</u>	<u>519,000</u>	<u>318,000</u>
Total income tax benefit (expense)	<u>\$ 38,000</u>	<u>\$ (383,000)</u>	<u>\$ (3,659,000)</u>

A reconciliation of the effective income tax rate with the applicable statutory federal income tax rate is as follows:

	<u>Years ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Federal tax at statutory rate	(34.0%)	34.0%	34.0%
State taxes, net of federal benefit	3.7%	8.7%	5.8%
Non-deductible stock based compensation	24.8%	52.7%	3.1%
Other	<u>0.4%</u>	<u>1.3%</u>	<u>0.3%</u>
Effective income tax rate	<u>(5.1%)</u>	<u>96.7%</u>	<u>43.2%</u>

The components of deferred income tax assets and liabilities are as follows as of December 31:

	<u>2014</u>	<u>2013</u>
Deferred income tax assets:		
Point loyalty program	\$ 706,000	\$ 767,000
Accrued expenses	4,209,000	1,890,000
Net operating loss carry-forwards	46,000	—
Other	<u>417,000</u>	<u>516,000</u>
Total deferred income tax assets	5,378,000	3,173,000
Valuation allowance	<u>(53,000)</u>	<u>—</u>
Net deferred income tax assets	<u>5,325,000</u>	<u>3,173,000</u>
Deferred income tax liabilities:		
Depreciation – property and equipment	<u>(3,678,000)</u>	<u>(4,630,000)</u>
Total deferred income tax liabilities	<u>(3,678,000)</u>	<u>(4,630,000)</u>
Net deferred income tax assets (liabilities)	<u>\$ 1,647,000</u>	<u>\$ (1,457,000)</u>
Amounts recognized in the consolidated balance sheet:		
Current deferred income tax assets	\$ 1,243,000	\$ 1,268,000
Noncurrent deferred income tax assets	404,000	—
Noncurrent deferred income tax liabilities	<u>—</u>	<u>(2,725,000)</u>
	<u>\$ 1,647,000</u>	<u>\$ (1,457,000)</u>

We recognize interest expense and penalties on uncertain income tax positions as a component of interest expense. No interest expense or penalties were recorded for uncertain income tax matters in 2014, 2013 or 2012. As of December 31, 2014 and 2013, we had no liabilities for uncertain income tax matters.

#### NOTE 8—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 this qualified pension plan. Benefits provided by our qualified pension plan were based on years of service and employees' remuneration over their term of employment. 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 \$289,000 and \$269,000 as of December 31, 2014 and 2013, respectively, and are recorded in other assets in our consolidated balance sheets (see NOTE 10 – 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.

The following table sets forth the plans' funded status and amounts recognized in our consolidated balance sheets as of December 31:

	<u>2014</u>	<u>2013</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$17,333,000	\$19,667,000
Interest cost	915,000	819,000
Actuarial loss (gain)	5,933,000	(2,771,000)
Benefits paid	(394,000)	(379,000)
Other	—	(3,000)
Benefit obligation at end of year	<u>23,787,000</u>	<u>17,333,000</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	13,869,000	12,558,000
Actual gain on plan assets	1,040,000	1,690,000
Employer contribution	140,000	—
Benefits paid	(394,000)	(379,000)
Fair value of plan assets at end of year	<u>14,655,000</u>	<u>13,869,000</u>
Unfunded status	<u>\$(9,132,000)</u>	<u>\$(3,464,000)</u>

The following table presents the amounts recognized in our consolidated balance sheets as of December 31:

	<u>2014</u>	<u>2013</u>
Accrued benefit cost	\$ (276,000)	\$ (224,000)
Liability for pension benefits	<u>(8,856,000)</u>	<u>(3,240,000)</u>
	<u>\$(9,132,000)</u>	<u>\$(3,464,000)</u>

Amounts recognized in accumulated other comprehensive loss that have not yet been recognized as components of net periodic (benefit) cost at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Net actuarial loss, pre-tax	\$7,848,000	\$1,895,000

The change in the funded status and accumulated other comprehensive loss is primarily a result of implementing a new set of mortality tables issued by the Society of Actuaries in October 2014 and lower discount rates.

The accumulated benefit obligation for all defined benefit pension plans was \$23,787,000 and \$17,333,000, respectively, as of December 31, 2014 and 2013.

The components of net periodic pension benefit for the years ended December 31, 2014, 2013 and 2012 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Interest cost	\$ 915,000	\$ 819,000	\$ 852,000
Expected return on plan assets	(1,092,000)	(988,000)	(912,000)
Recognized net actuarial loss	<u>32,000</u>	<u>82,000</u>	<u>57,000</u>
	<u>\$ (145,000)</u>	<u>\$ (87,000)</u>	<u>\$ (3,000)</u>

For the year ending December 31, 2015, we expect to recognize the following amounts as components of net periodic (benefit) cost which are included in accumulated comprehensive loss as of December 31, 2014:

Actuarial loss	\$148,000
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The principal assumptions used to determine the net periodic pension benefit for the years ended December 31, 2014, 2013 and 2012, and the actuarial value of the benefit obligation at December 31, 2014 and 2013 (the measurement dates) for our pension plans are as follows:

	<u>Net Periodic Pension Cost</u>			<u>Benefit Obligation</u>	
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014</u>	<u>2013</u>
Weighted-average discount rate	5.1%	4.4%	5.1%	4.1%	5.1%
Weighted-average rate of compensation increase	n/a	n/a	n/a	n/a	n/a
Expected long-term rate of return on plan assets	8.0%	8.0%	8.0%	n/a	n/a

The weighted-average discount rates were determined by matching estimated benefit cash flows to a yield curve derived from long-term, high-quality corporate bond curves.

For 2014, we assumed a long-term rate of return on plan assets of 8.0%. In developing the 8.0% expected long-term rate of return assumption, we reviewed asset class return expectations and long-term inflation assumptions and considered our historical compounded return, which was consistent with our long-term rate of return assumption.

Our investment goals are to achieve a combination of moderate growth of capital and income with moderate risk. Acceptable investment vehicles will include mutual funds, exchange-traded funds (ETFs), limited partnerships, and individual securities. Our target allocations for plan assets are 60% equities and 40% fixed income. Of the equity portion, 50% will be invested in passively managed securities using ETFs and the other 50% will be invested in actively managed investment vehicles. We address diversification by investing in mutual funds and ETFs which hold large, mid and small capitalization U.S. stocks, international (non-U.S.) equity, REITS, and real assets (consisting of inflation-linked bonds, real estate and natural resources). A sufficient percentage of investments will be readily marketable in order to be sold to fund benefit payment obligations as they become payable.

The fair values of our pension assets as of December 31, 2014 by asset category are as follows (refer to NOTE 10 – Fair Value Measurements for a description of Level 1, Level 2 and Level 3 categories):

<u>Asset Category</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate common stock	\$ 1,484,000	\$ 1,484,000	\$ —	\$ —
Mutual funds/ETFs:				
Equity-large cap	3,027,000	3,027,000	—	—
Equity-mid cap	1,363,000	1,363,000	—	—
Equity-small cap	294,000	294,000	—	—
Equity-international	1,854,000	1,854,000	—	—
Fixed income	5,472,000	5,472,000	—	—
Real estate	795,000	795,000	—	—
Money market	366,000	366,000	—	—
Total mutual funds/ETFs	<u>13,171,000</u>	<u>13,171,000</u>	<u>—</u>	<u>—</u>
Grand total	<u>\$14,655,000</u>	<u>\$14,655,000</u>	<u>\$ —</u>	<u>\$ —</u>

The fair values of our pension assets as of December 31, 2013 by asset category are as follows (refer to NOTE 10 – Fair Value Measurements for a description of Level 1, Level 2 and Level 3 categories):

<u>Asset Category</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate common stock	\$ 1,391,000	\$ 1,391,000	\$ —	\$ —
Mutual funds/ETFs:				
Equity-large cap	2,801,000	2,801,000	—	—
Equity-mid cap	1,276,000	1,276,000	—	—
Equity-small cap	321,000	321,000	—	—
Equity-international	1,924,000	1,924,000	—	—
Fixed income	5,037,000	5,037,000	—	—
Real estate	627,000	627,000	—	—
Money market	492,000	492,000	—	—
Total mutual funds/ETFs	<u>12,478,000</u>	<u>12,478,000</u>	<u>—</u>	<u>—</u>
Grand total	<u>\$13,869,000</u>	<u>\$13,869,000</u>	<u>\$ —</u>	<u>\$ —</u>

We expect to contribute approximately \$425,000 to our pension plans in 2015.

Estimated future benefit payments are as follows:

2015	\$ 908,000
2016	\$ 782,000
2017	\$ 702,000
2018	\$ 761,000
2019	\$ 786,000
2020-2024	\$ 4,790,000

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 contribution in our 401(k) plan. The SERP is a discretionary defined contribution plan and contributions made to the SERP in any given year are not guaranteed and will be at the sole discretion of our Compensation and Stock Incentive Committee. During 2014, 2013 and 2012, we recorded expenses of \$126,000, \$120,000 and \$100,000, respectively, related to the SERP. During 2014, 2013 and 2012, we contributed \$115,000, \$107,000 and \$0 to the plan, respectively. The liability for pension benefits was \$124,000 and \$113,000 as of December 31, 2014 and 2013, respectively.

We maintain a defined contribution 401(k) plan which permits participation by substantially all employees. Our matching contributions to the 401(k) plan were \$829,000, \$809,000 and \$887,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

## NOTE 9—Stockholders' Equity

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

	<u>Common Stock</u>	<u>Class A Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>
<b>Balance at December 31, 2011</b>	\$1,576	\$1,660	\$3,464	\$108,090	\$(2,284)
Net earnings	—	—	—	4,807	—
Dividends paid, \$0.11 per share	—	—	—	(3,575)	—
Issuance of nonvested stock awards, net of forfeitures	19	—	(19)	—	—
Stock-based compensation	—	—	793	—	—
Unrealized gain on interest rate swap, net of income tax expense of \$64	—	—	—	—	83
Change in net actuarial loss and prior service cost, net of income tax benefit of \$699	—	—	—	—	(1,059)
Unrealized gain on available-for-sale securities, net of income tax expense of \$8	—	—	—	—	12
Repurchase and retirement of common stock	(5)	—	(102)	—	—
<b>Balance at December 31, 2012</b>	<u>1,590</u>	<u>1,660</u>	<u>4,136</u>	<u>109,322</u>	<u>(3,248)</u>
Net earnings	—	—	—	13	—
Issuance of nonvested stock awards, net of forfeitures	17	—	(17)	—	—
Stock-based compensation	—	—	682	—	—
Change in net actuarial loss and prior service cost, net of income tax expense of \$1,413	—	—	—	—	2,142
Unrealized gain on available-for-sale securities, net of income tax expense of \$8	—	—	—	—	11
Conversion of Class A common stock to common stock	173	(173)	—	—	—
Repurchase and retirement of common stock	(6)	—	(138)	—	—
<b>Balance at December 31, 2013</b>	<u>1,774</u>	<u>1,487</u>	<u>4,663</u>	<u>109,335</u>	<u>(1,095)</u>
Net loss	—	—	—	(706)	—
Issuance of nonvested stock awards, net of forfeitures	21	—	(21)	—	—
Stock-based compensation	—	—	580	—	—
Change in net actuarial loss and prior service cost, net of income tax benefit of \$2,365	—	—	—	—	(3,588)
Unrealized gain on available-for-sale securities, net of income tax expense of \$2	—	—	—	—	3
Repurchase and retirement of common stock	(7)	—	(97)	—	—
<b>Balance at December 31, 2014</b>	<u>\$1,788</u>	<u>\$1,487</u>	<u>\$5,125</u>	<u>\$108,629</u>	<u>\$(4,680)</u>

As of December 31, 2014 and 2013, accumulated other comprehensive loss consists of the following:

	<u>2014</u>	<u>2013</u>
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of \$3,137,000 and \$772,000, respectively	\$ (4,711,000)	\$ (1,123,000)
Accumulated unrealized gain on available-for-sale securities, net of income tax expense of \$22,000 and \$20,000, respectively	<u>31,000</u>	<u>28,000</u>
Accumulated other comprehensive loss	<u>\$ (4,680,000)</u>	<u>\$ (1,095,000)</u>

We have 125,000,000 shares of authorized capital stock which consists of 74,000,000 shares of common stock, par value \$.10 per share; 50,000,000 shares of Class A common stock, par value \$.10 per share; and 1,000,000 shares of preferred stock, par value \$.10 per share.

The holders of common stock are entitled to one vote per share and the holders of our Class A common stock are entitled to 10 votes per share. There is no cumulative voting. Shares of Class A common stock are convertible at any time into our shares of common stock on a one-for-one basis at the option of the stockholder. Subject to rights of any preferred stockholder, holders of our common stock and Class A common stock are entitled to receive on a pro rata basis such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available for that purpose. At the discretion of our Board of Directors, we may pay to the holders of common stock a cash dividend greater than the dividend, if any, paid to the holders of Class A common stock.

Under Delaware law, a change of ownership of a Licensed Agent will automatically terminate its license 90 days after the change of ownership occurs, unless the Director of the Delaware State Lottery Office determines after application to issue a new license to the new owners. Change of ownership may occur if any new individual or entity acquires, directly or indirectly, 10% or more of the Licensed Agent or if more than 20% of the legal or beneficial interest in the Licensed Agent is transferred, whether by direct or indirect means. The Commission may require extensive background investigations of any new owner acquiring a 10% or greater interest in a Licensed Agent, including criminal background checks. Accordingly, we have a restrictive legend on our shares of common stock which require that (a) any holders of common stock found to be disqualified or unsuitable or not possessing the qualifications required by any appropriate gaming authority could be required to dispose of such stock and (b) any holder of common stock intending to acquire 10% or more of our outstanding common stock must first obtain prior written approval from the Delaware State Lottery Office.

We adopted a stockholder rights plan in 2012. The rights are attached to and trade in tandem with our common stock and Class A common stock. Each right entitles the registered holder to purchase from us one share of common stock. The rights, unless earlier redeemed by our Board of Directors, will detach and trade separately from our common stock upon the occurrence of certain events such as the unsolicited acquisition by a third party of beneficial ownership of 10% or more of our outstanding combined common stock and Class A common stock or the announcement by a third party of the intent to commence a tender or exchange offer for 10% or more of our outstanding combined common stock and Class A common stock. After the rights have detached, the holders of such rights would generally have the ability to purchase such number of either shares of our common stock or stock of an acquirer of ours having a market value equal to twice the exercise price of the right being exercised, thereby causing substantial dilution to a person or group of persons attempting to acquire control of us. The rights may serve as a significant deterrent to unsolicited attempts to acquire control of us, including transactions involving a premium to the market price of our stock. This rights agreement expires on January 1, 2022, unless earlier redeemed.

On October 28, 2014, we were notified by the New York Stock Exchange (“NYSE”) that the average closing price of our common stock had fallen below \$1.00 per share over a period of 30 consecutive trading days, which is the minimum average share price for continued listing on the NYSE. Under NYSE rules, we have six months following receipt of the notification, subject to possible extension, to regain compliance with the minimum share price requirement or be subject to delisting. We will monitor the price for our common stock and will consider available options to resolve the deficiency and regain compliance with the NYSE listing standards. If we are not able to regain compliance, our stock will be delisted from trading on the NYSE. This would result in the need to find another market on which our stock can be listed or cause our stock to cease trading on an active market, which could result in a reduction in the liquidity for our stock and a reduction in demand for our stock.

On January 23, 2013, our Board of Directors suspended the quarterly dividend. In addition, our credit facility prohibits the payment of dividends. See NOTE 6 – Credit Facility.

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made

pursuant to this authorization during 2014 or 2013. At December 31, 2014, we had remaining repurchase authority of 1,653,333 shares. At present we are not permitted to make such purchases under our credit facility.

During the years ended December 31, 2014, 2013 and 2012, we purchased and retired 66,829, 61,869 and 49,590 shares of our outstanding common stock for \$104,000, \$144,000 and \$107,000, respectively. These purchases were made from employees in connection with the vesting of restricted stock awards under our stock incentive plan and were not pursuant to the aforementioned repurchase authorization. Since the vesting of a restricted stock award is a taxable event to our employees for which income tax withholding is required, the plan allows employees to surrender to us some of the shares that would otherwise have vested in satisfaction of their tax liability. The surrender of these shares is treated by us as a purchase of the shares.

We have a stock incentive plan which provides for the grant of up to 2,000,000 shares of common stock to our officers and key employees through stock options and/or awards valued in whole or in part by reference to our common stock, such as nonvested restricted stock awards. Under the plan, nonvested restricted stock vests an aggregate of twenty percent each year beginning on the second anniversary date of the grant. The aggregate market value of the nonvested restricted stock at the date of issuance is being amortized on a straight-line basis over the six-year period. We granted 211,000 and 205,500 stock awards under this plan during 2014 and 2013, respectively. As of December 31, 2014, there were 563,975 shares available for granting options or stock awards.

Nonvested restricted stock activity for the year ended December 31, 2014 was as follows:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at December 31, 2013	757,900	\$ 3.10
Granted	211,000	\$ 1.52
Vested	<u>(179,400)</u>	\$ 4.16
Nonvested at December 31, 2014	<u>789,500</u>	\$ 2.44

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 service period or the service period remaining until normal retirement age, if shorter. The total fair value of shares vested during the years ended December 31, 2014, 2013 and 2012 based on the weighted average grant date fair value was \$745,000, \$913,000 and \$986,000, respectively. The grant-date fair value of restricted stock awards granted during the years ended December 31, 2014, 2013 and 2012 was \$1.52, \$2.32 and \$2.14, respectively. We recorded, within general and administrative expenses, compensation expense of \$580,000, \$682,000 and \$793,000 related to restricted stock awards for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, there was \$930,000 of total deferred compensation cost related to nonvested restricted stock awards granted to employees under our stock incentive plan. That cost is expected to be recognized over a weighted-average period of 3.4 years.

#### **NOTE 10—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 December 31, 2014 and 2013:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>2014:</b>				
Available-for-sale securities	\$ 289,000	\$ 289,000	\$ —	\$ —
<b>2013:</b>				
Available-for-sale securities	\$ 269,000	\$ 269,000	\$ —	\$ —

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

We previously had an interest rate swap agreement effectively converting a portion of the outstanding borrowings under our revolving credit agreement to a fixed-rate, thereby hedging against the impact of potential interest rate changes on future interest expense. The interest rate swap expired in April 2012. We recognized \$83,000, net of income taxes, in unrealized gains on our interest rate swap during 2012.

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

At December 31, 2014 and 2013, there was \$39,010,000 and \$47,040,000, respectively, outstanding under our revolving credit agreement. The borrowings under our revolving credit agreement bear interest at the variable rate described in NOTE 6 – Credit Facility and therefore we believe approximate fair value.

#### **NOTE 11—Related Party Transactions**

During the years ended December 31, 2014, 2013 and 2012, we allocated costs of \$1,910,000, \$1,854,000 and \$1,865,000, respectively to DVD, a company related through common ownership, for certain administrative and operating services, including leased space. DVD allocated certain administrative and operating service costs of \$240,000, \$220,000 and \$217,000, respectively, to us for the years ended December 31, 2014, 2013 and 2012. The allocations were based on an analysis of each company’s share of the costs. In connection with DVD’s 2014, 2013 and 2012 NASCAR event weekends at Dover International Speedway, we provided certain services, primarily catering, for which DVD was invoiced \$689,000, \$801,000 and \$804,000, respectively. Additionally, DVD invoiced us \$184,000, \$294,000 and \$381,000, respectively, for tickets, display space, their commission for suite catering and other services at DVD’s 2014, 2013 and 2012 NASCAR event weekends at Dover International Speedway. As of December 31, 2014 and 2013, respectively, our consolidated balance sheet included a \$22,000 receivable from and \$4,000 payable to DVD for the aforementioned items. We settled these items in January of 2015 and 2014. The net costs incurred by each company for these services are not necessarily indicative of the costs that would have been incurred if the companies had been unrelated entities and/or had otherwise independently managed these functions; however, management believes that these costs are reasonable.

Prior to our spin-off from DVD in 2002, both companies shared certain real property in Dover, Delaware. At the time of the spin-off, some of this real property was transferred to us to ensure that the real property holdings of each company was aligned with its past uses and future business needs. During our harness racing season, we have historically used the 5/8-mile harness racing track that is located on DVD’s property and is on the inside of its one-mile motorsports superspeedway. In order to continue this historic use, DVD granted a perpetual easement to the harness track to us at the time of the spin-off. This perpetual easement allows us to have exclusive use of the harness track during the period beginning November 1 of each year and ending April 30 of the following year, together with set up and tear down rights for the two weeks before and after such period. The easement requires that we maintain the harness track but does not require the payment of any rent.

Various easements and agreements relative to access, utilities and parking have also been entered into between us and DVD relative to our respective Dover, Delaware facilities. DVD pays rent to us for the lease of its principal executive office space. We also allow DVD to use our indoor grandstands in connection with DVD’s two annual motorsports weekends. We do not assess rent for this nominal use and may discontinue the use at our discretion.

In conjunction with the spin-off from DVD, we and DVD entered into various agreements that addressed the allocation of assets and liabilities between the two companies and that define the companies' relationship after the separation. Among these are the Real Property Agreement and the Transition Support Services Agreement.

The Real Property Agreement governs certain real property transfers, leases and easements affecting our Dover, Delaware facility.

The Transition Support Services Agreement provides for each of us and DVD to provide each other with certain administrative and operational services. The party receiving the services is required to pay for them within 30 business days after receipt of an invoice at rates agreed upon by us and DVD. The agreement may be terminated in whole or in part 90 days after the request of the party receiving the services or 180 days after the request of the party providing the services.

Henry B. Tippie, Chairman of our Board of Directors, controls in excess of fifty percent of our voting power. Mr. Tippie's voting control emanates from his direct and indirect holdings of common stock and Class A common stock, from his status as trustee of the RMT Trust, our largest stockholder, and from certain shares as to which he has voting rights pursuant to a voting agreement with R. Randall Rollins, one of our directors. This means that Mr. Tippie has the ability to determine the outcome of our election of directors and to determine the outcome of many significant corporate transactions, many of which only require the approval of a majority of our voting power.

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

#### **NOTE 12—Commitments and Contingencies**

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

We have employment, severance and noncompete agreements with certain of our officers and directors under which certain change of control, severance and noncompete payments and benefits might become payable in the event of a change in our control, defined to include a tender offer or the closing of a merger or similar corporate transactions. In the event of such a change in our control and the subsequent termination of employment of all employees covered under these agreements, we estimate that the maximum contingent liability would range from \$9,000,000 to \$11,300,000 depending on the tax treatment of the payments.

To the extent that any of the potential payments or benefits due under the agreements constitute an excess "parachute payment" under the Internal Revenue Code and result in the imposition of an excise tax, each agreement requires that we pay the amount of such excise tax plus any additional amounts necessary to place the officer or director in the same after-tax position as he would have been had no excise tax been imposed. We estimate that the tax gross ups that could be paid under the agreements in the event the agreements were triggered due to a change of control could be between \$1,100,000 and \$3,400,000 and these amounts have been included in the maximum contingent liability disclosed above. This maximum tax gross up assumes that none of the payments made after the hypothetical change in control would be characterized as reasonable compensation for services rendered. Each agreement with an executive officer provides that fifty percent of the monthly amount paid during the term is paid in consideration of the executive officer's non-compete covenants. The exclusion of these amounts would reduce the calculated amount of excess parachute payments subject to tax. We are unable to conclude whether the Internal Revenue Service would characterize all or some of these non-compete payments as reasonable compensation for services rendered.

**NOTE 13—Quarterly Results (unaudited)**

	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
<b>Year Ended December 31, 2014</b>				
Revenues	\$ 45,477,000	\$ 46,206,000	\$ 47,988,000	\$ 45,711,000
Operating (loss) earnings	\$ (961,000)	\$ 841,000	\$ 1,426,000	\$ (363,000)
Net (loss) earnings	\$ (1,053,000)	\$ 164,000	\$ 699,000	\$ (516,000)
Net (loss) earnings per share-basic	\$ (0.03)	\$ 0.01	\$ 0.02	\$ (0.02)
Net (loss) earnings per share-diluted	\$ (0.03)	\$ 0.01	\$ 0.02	\$ (0.02)
<b>Year Ended December 31, 2013</b>				
Revenues	\$ 50,518,000	\$ 50,048,000	\$ 50,073,000	\$ 46,592,000
Operating earnings (loss)	\$ 273,000	\$ 1,247,000	\$ 829,000	\$ (201,000)
Net (loss) earnings	\$ (283,000)	\$ 491,000	\$ 223,000	\$ (418,000)
Net (loss) earnings per share-basic	\$ (0.01)	\$ 0.02	\$ 0.01	\$ (0.01)
Net (loss) earnings per share-diluted	\$ (0.01)	\$ 0.02	\$ 0.01	\$ (0.01)

Our quarterly operating results are affected by weather and the general economic conditions in the United States. Additionally, given our high level of fixed operating costs, fluctuations in our business volume can lead to variations in quarterly operating results.

Per share data amounts for the quarters have each been calculated separately. Accordingly, quarterly amounts may not add to the annual amounts due to differences in the weighted-average common shares outstanding during each period.

## C O R P O R A T E   D A T A

### Directors

#### Henry B. Tippie\*+†

*Chairman of the Board of Directors  
Chairman of the Board of Directors of  
Dover Motorsports, Inc.  
Chairman of the Board and Chief Executive Officer  
of Tippie Services, Inc.*

#### Denis McGlynn\*

*President and Chief Executive Officer  
President and Chief Executive Officer of  
Dover Motorsports, Inc.*

#### Timothy R. Horne

*Senior Vice President – Finance,  
Treasurer and Chief Financial Officer  
Senior Vice President – Finance and Chief Financial Officer  
of Dover Motorsports, Inc.*

#### Patrick J. Bagley\*\*

*Former Senior Vice President – Finance and  
Chief Financial Officer of Dover Motorsports, Inc.*

#### Jeffrey W. Rollins\*\*

*Managing Member of Osprey Investment Partners  
Senior Investment Officer of Ashford Capital Management*

#### R. Randall Rollins\*\*+†

*Chairman of the Board of Rollins, Inc.  
Chairman of the Board of RPC, Inc  
Chairman of the Board of Marine Products Corporation*

#### Richard K. Struthers

*President of Ashford Point Enterprises  
Former President and Member of Executive  
Management Team, Bank of America Global Card Services*

### Executive Officers

#### Denis McGlynn

*President and Chief Executive Officer*

#### Edward J. Sutor

*Executive Vice President and Chief Operating Officer*

#### Timothy R. Horne

*Senior Vice President – Finance,  
Treasurer and Chief Financial Officer*

#### Klaus M. Belohoubek

*Senior Vice President – General Counsel and Secretary*

Stock Listing: *New York Stock Exchange*

Ticker Symbol: *DDE*

#### Transfer Agent and Registrar:

*Computershare  
PO Box 43006  
Providence, RI 02940-3006  
For overnight delivery, use  
250 Royall Street  
Canton, MA 02021  
[www.computershare.com/investor](http://www.computershare.com/investor)*

#### Annual Meeting of Stockholders:

*April 29, 2015  
8:00 am  
Dover Downs Hotel & Casino  
1131 N. DuPont Highway  
Dover, DE*

#### Corporate Office:

*1131 N. DuPont Highway  
P.O. Box 1412  
Dover, DE 19903*

Internet Address: [www.doverdowns.com](http://www.doverdowns.com)

\* member of the Executive Committee

\*\* member of the Audit Committee

+ member of the Compensation and Stock Incentive Committee

† member of Nominating and Corporate Governance Committee









Dover Downs Gaming & Entertainment, Inc.  
The premier gaming operator in Delaware consists of:

**Dover Downs Casino**  
A 165,000 square-foot Las Vegas style casino complex featuring popular table games, the latest in slot machine offerings, multi-player electronic table games, the Crown Royal® Poker Room and a sports book operation.

**Dover Downs Hotel**  
Four-diamond luxury accommodations with conference, banquet, fine dining, ballroom and concert hall facilities.

**Dover Downs Raceway**  
A premier harness racing track with pari-mutuel wagering on live and simulcast horse races.



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