DOVER MOTORSPORTS INC
Form 10-Q
November 06, 2013

United States
Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2013

Commission file number 1-11929

Dover Motorsports, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**51-0357525**
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

1131 North DuPont Highway, Dover, Delaware 19901

(Address of principal executive offices)

(302) 883-6500

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 o   Accelerated filer o   Non-accelerated filer o   Smaller reporting company x

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

As of October 31, 2013, the number of shares of each class of the registrant s common stock outstanding is as follows:

Common Stock -	18,164,209 shares
Class A Common Stock -	18,510,975 shares

Part I Financial Information

Item 1. Financial Statements

DOVER MOTORSPORTS, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

AND COMPREHENSIVE INCOME

In Thousands, Except Per Share Amounts

(Unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Revenues:				
Admissions	$ 4,657	$ 5,105	$ 9,521	$ 10,428
Event-related	4,422	5,708	9,062	9,789
Broadcasting	12,379	11,959	27,445	26,393
Other	12	1	23	8
	21,470	22,773	46,051	46,618
Expenses:				
Operating and marketing	11,618	12,075	25,795	25,703
General and administrative	1,732	1,723	5,482	5,458
Depreciation	820	824	2,469	2,491
	14,170	14,622	33,746	33,652
Operating earnings	7,300	8,151	12,305	12,966
Interest expense, net	(237)	(332)	(787)	(1,105)
Provision for contingent obligation	41	(21)	44	268
Other income (expense)	7	(52)	152	(48)
Earnings before income taxes	7,111	7,746	11,714	12,081
Income tax expense	2,953	3,214	4,932	5,154
Net earnings	4,158	4,532	6,782	6,927
Unrealized gain on available-for- sale securities, net of income taxes	10	11	21	27
Change in net actuarial loss and prior service cost, net of income taxes	14	12	42	36
Comprehensive income	$ 4,182	$ 4,555	$ 6,845	$ 6,990
Net earnings per common share:				
Basic	$ 0.11	$ 0.12	$ 0.18	$ 0.19
Diluted	$ 0.11	$ 0.12	$ 0.18	$ 0.19

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

DOVER MOTORSPORTS, INC.

CONSOLIDATED BALANCE SHEETS

In Thousands, Except Share and Per Share Amounts

(Unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash	$ 35	$ 15
Accounts receivable	10,550	224
Inventories	123	124
Prepaid expenses and other	882	1,222
Deferred income taxes	85	78
Total current assets	11,675	1,663
Property and equipment, net	90,674	92,896
Other assets	844	738
Deferred income taxes	462	490
Total assets	$ 103,655	$ 95,787
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 83	$ 145
Accrued liabilities	4,865	2,903
Payable to Dover Downs Gaming & Entertainment, Inc.	12	
Income taxes payable	3,326	132
Deferred revenue	112	2,719
Total current liabilities	8,398	5,899
Revolving line of credit	18,080	19,700
Liability for pension benefits	2,979	3,065
Other liabilities	1,890	1,934
Deferred income taxes	17,956	17,096
Total liabilities	49,303	47,694
Commitments and contingencies (see Notes to the Consolidated Financial Statements)		
Stockholders equity:		
Preferred stock, $0.10 par value; 1,000,000 shares authorized; shares issued and outstanding: none		
Common stock, $0.10 par value; 75,000,000 shares authorized; shares issued and outstanding: 18,166,009 and 18,362,798, respectively	1,816	1,836
Class A common stock, $0.10 par value; 55,000,000 shares authorized; shares issued and outstanding: 18,510,975 and 18,510,975, respectively	1,851	1,851
Additional paid-in capital	101,600	102,166
Accumulated deficit	(48,474)	(55,256)
Accumulated other comprehensive loss	(2,441)	(2,504)
Total stockholders equity	54,352	48,093
Total liabilities and stockholders equity	$ 103,655	$ 95,787

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

DOVER MOTORSPORTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Operating activities:		
Net earnings	$ 6,782	$ 6,927
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	2,469	2,491
Amortization of credit facility fees	189	170
Stock-based compensation	233	247
Deferred income taxes	654	3,689
Provision for contingent obligation	(44)	(268)
Gain on sale of property and equipment	(138)	
Loss on sale of land		52
Changes in assets and liabilities:		
Accounts receivable	(10,326)	(8,724)
Inventories	1	(11)
Prepaid expenses and other	85	194
Accounts payable	(62)	(29)
Accrued liabilities	1,962	1,829
Payable to/receivable from Dover Downs Gaming & Entertainment, Inc.	12	11
Income taxes payable	3,378	654
Deferred revenue	(2,607)	(1,851)
Other liabilities	(15)	(75)
Net cash provided by operating activities	2,573	5,306
Investing activities:		
Capital expenditures	(247)	(464)
Proceeds from sale of property and equipment	138	585
Purchase of available-for-sale securities	(78)	(100)
Proceeds from sale of available-for-sale securities	73	
Net cash (used in) provided by investing activities	(114)	21
Financing activities:		
Borrowings from revolving line of credit	22,280	15,820
Repayments on revolving line of credit	(23,900)	(20,360)
Repurchase of common stock	(819)	(27)
Net cash used in financing activities	(2,439)	(4,567)
Net increase in cash	20	760
Cash, beginning of period	15	15
Cash, end of period	$ 35	$ 775
Supplemental information:		
Interest paid	$ 625	$ 965
Income tax payments	$ 949	$ 812

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

DOVER MOTORSPORTS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 Basis of Presentation

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

The accompanying consolidated financial statements have been prepared in compliance with Rule 10-01 of Regulation S-X and U.S. generally accepted accounting principles, and accordingly do not include all of the information and disclosures required for audited financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our latest Annual Report on Form 10-K filed on March 8, 2013. In the opinion of management, these consolidated financial statements include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. Operating results for the three and nine-month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 due to the seasonal nature of our business.

NOTE 2 Business Operations

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

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

On July 20-22, 2012, the inaugural Firefly Music Festival (Firefly) was held on our property in Dover, DE for which we received a fee for the use of our property and recorded revenues and related costs for the concession sales we managed. The three day event was promoted by Red Frog Events LLC and featured more than 40 musical acts. The Firefly event returned on June 21-23, 2013 and featured more than 70 musical acts. For the 2013 event, we received a fee for the use of our property and a percentage of the concession sales we managed. The Firefly event is scheduled to return on June 20-22, 2014.

Nashville Superspeedway no longer promotes NASCAR events and did not seek sanction agreements from NASCAR for 2013 or 2014. We continue to use the track for motorsports race team testing and are currently evaluating all of our options for the facility. In 2011 we recorded a $2,250,000 provision for contingent obligation reflecting the present value of the estimated portion of the Wilson County bonds debt service that may not be covered by the projected sales and incremental property taxes from the facility (see NOTE 9   Commitments and Contingencies for further discussion). Due to changing interest rates, the provision for contingent obligation (decreased) increased by ($41,000) and ($44,000), and $21,000 and ($268,000), net, in the three and nine-month periods ended September 30, 2013 and 2012, respectively, and is $1,890,000 at September 30, 2013.

NOTE 3 Summary of Significant Accounting Policies

Basis of consolidation and presentation The accompanying consolidated financial statements include the accounts of Dover Motorsports, Inc. and our wholly owned subsidiaries. Intercompany transactions and balances have been eliminated.

Investments Investments, which consist of mutual funds, are classified as available-for-sale and reported at fair-value in other assets in our consolidated balance sheets. Changes in fair value are reported in other comprehensive income (loss). See NOTE 5 Pension Plans, NOTE 6 Stockholders Equity and NOTE 7 Fair Value Measurements for further discussion.

Property and equipment Property and equipment is stated at cost. Depreciation is provided for financial reporting purposes using the straight-line method. Accumulated depreciation was $47,807,000 and $45,352,000 as of September 30, 2013 and December 31, 2012, respectively.

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

Income taxes Deferred income taxes are provided on all differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements based upon enacted statutory tax rates in effect at the balance sheet date. We record a valuation allowance to reduce our deferred tax assets when uncertainty regarding their realizability exists. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. As of September 30, 2013, our valuation allowance on state net operating loss carry-forwards net of federal income taxes was $10,165,000, which decreased by $2,000,000 in the first nine months of 2013. These state net operating losses are related to our Midwest facilities that have not produced taxable income. Valuation allowances fully reserve the state net operating loss carryforwards, net of federal tax benefit.

We file income tax returns with the Internal Revenue Service and the states in which we conduct business. We have identified the U.S. federal and state of Delaware as our major tax jurisdictions. As of September 30, 2013, tax years after 2009 remain open to examination for federal income tax purposes. As of September 30, 2013, tax years after 2008 remain open to examination for Delaware income tax purposes.

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

Revenues pertaining to specific events are deferred until the event is held. Concession and souvenir revenues are recorded at the time of sale. Revenues and related expenses from barter transactions in which we provide advertising or other goods or services in exchange for sponsorships of motorsports events are recorded at fair value.

Barter transactions accounted for $231,000 and $477,000, and $202,000 and $424,000 of total revenues for the three and nine-month periods ended September 30, 2013 and 2012, respectively.

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

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

The cost of non-event related advertising, promotion and marketing programs is expensed as incurred. Advertising expenses were $523,000 and $1,183,000, and $520,000 and $1,092,000 for the three and nine-month periods ended September 30, 2013 or 2012, respectively.

Net 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 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):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
Net earnings per common share basic:								
Net earnings	$	4,158	$	4,532	$	6,782	$	6,927
Allocation to nonvested restricted stock awards		67		73		109		111
Net earnings available to common stockholders	$	4,091	$	4,459	$	6,673	$	6,816
Weighted-average shares outstanding		36,242		36,300		36,337		36,299
Net earnings per common share basic	$	0.11	$	0.12	$	0.18	$	0.19
Net earnings per common share diluted:								
Net earnings	$	4,158	$	4,532	$	6,782	$	6,927
Allocation to nonvested restricted stock awards		67		73		109		111
Net earnings available to common stockholders	$	4,091	$	4,459	$	6,673	$	6,816
Weighted-average shares and dilutive shares outstanding		36,242		36,300		36,337		36,299
Net earnings per common share diluted	$	0.11	$	0.12	$	0.18	$	0.19

There were no options outstanding during the three or nine-month periods ended September 30, 2013 or 2012.

Accounting for stock-based compensation We recorded total stock-based compensation expense for our restricted stock awards of $67,000 and $233,000, and $78,000 and $247,000 as general and administrative expenses for the three and nine-month periods ended September 30, 2013 and 2012, respectively. We recorded income tax benefit (expense) of $28,000 and $33,000, and $32,000 and ($31,000) for the three and nine-month periods ended September 30, 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. Illiquid credit markets, volatile equity markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

NOTE 4 Long-Term Debt

On April 29, 2013, Dover Motorsports, Inc. and its wholly owned subsidiaries Dover International Speedway, Inc. and Nashville Speedway, USA, Inc., as co-borrowers, modified our secured credit agreement with our bank group. The credit facility was modified to: extend the maturity date to July 31, 2017; reduce the maximum borrowing limit to $50,000,000 as of April 29, 2013, to $42,500,000 as of December 31, 2013 and to $35,000,000 as of December 31, 2014 and through the date of maturity; modify the maximum funded debt to earnings before interest, taxes, depreciation and amortization (leverage ratio); replace the interest expense coverage ratio with a fixed charge coverage ratio; permit stock repurchases and the payment of dividends; and provide that we may elect to enter into a negative pledge with the bank group in exchange for the release of the security interest in the collateral securing the agreement. Material adverse changes in our results of operations could impact our ability to maintain financial ratios necessary to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause and provides the lenders with a first lien on all of our assets. The credit facility also provides that if we default under any other loan agreement, that would be a default under this facility. At September 30, 2013, there was $18,080,000 outstanding under the credit facility at an interest rate of 1.93%. The credit facility provides for seasonal funding needs, capital improvements, letter of credit requirements and other general corporate purposes. Interest is based upon LIBOR plus a margin that varies between 125 and 175 basis points depending on the leverage ratio (175 basis points at September 30, 2013). In the event we elect to enter into the negative pledge, interest will be based upon LIBOR plus a margin that varies between 150 and 200 basis points depending on the leverage ratio. At September 30, 2013, we were in compliance with the terms of the credit facility. After consideration of stand-by letters of credit outstanding, the remaining maximum borrowings available pursuant to the credit facility were $12,805,000 at September 30, 2013. We expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods during the next twelve months.

NOTE 5 Pension Plans

We maintain a non-contributory tax qualified defined benefit pension plan that has been frozen since July 2011. All of our full time employees were eligible to participate in the qualified plan. Benefits provided by our qualified pension plan were based on years of service and employees remuneration over their employment period. Pension costs are funded in accordance with the provisions of the Internal Revenue Code. We also maintain a non-qualified, non-contributory defined benefit pension plan, the excess plan, for certain employees that has been frozen since July 2011. This excess plan provided benefits that would otherwise be provided under the qualified pension plan but for maximum benefit and compensation limits applicable under federal tax law. The cost associated with the excess plan is determined using the same actuarial methods and assumptions as those used for our qualified pension plan. The assets for the excess plan aggregate $734,000 and $680,000 as of September 30, 2013 and December 31, 2012, respectively, and are recorded in other assets in our consolidated balance sheets (see NOTE 7 Fair Value Measurements).

On June 15, 2011, we decided to freeze participation and benefit accruals under our pension plans, primarily to reduce some of the impact on earnings and volatility in cash flows that can accompany the maintenance of a defined benefit plan. The freeze was effective July 31, 2011. Compensation earned by employees up to July 31, 2011 is used for purposes of calculating benefits under our pension plan with no future benefit accruals after this date. Participants as of July 31, 2011 continue to earn vesting credit with respect to their frozen accrued benefits as they continue to work.

Effective December 1, 2012, we created a new non-elective, non-qualified supplemental executive retirement plan (SERP) in connection with the freezing of our pension plan. Its purpose is to provide deferred compensation to certain highly compensated employees that approximates the value of benefits lost by the freezing of the pension plan which are not offset by our enhanced matching contributions in our 401(k) plan. The SERP is a discretionary defined contribution plan and contributions made to the SERP in any given year are not guaranteed and will be at the sole discretion of our Compensation and Stock Incentive Committee. In the three and nine-month period ended September 30, 2013, we recorded an expense of $15,000 and $45,000, respectively, related to the SERP and contributed $0 and $55,000, respectively, to the plan. The liability for pension benefits was $50,000 and $60,000 as of September 30, 2013 and December 31, 2012, respectively.

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

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Interest cost	$ 113,000	$ 113,000	$ 339,000	$ 340,000
Expected return on plan assets	(139,000)	(127,000)	(414,000)	(381,000)
Recognized net actuarial loss	24,000	20,000	71,000	60,000
	$ (2,000)	$ 6,000	$ (4,000)	$ 19,000

We contributed $45,000 and $146,000 to our defined benefit pension plans during the three and nine-month periods ended September 30, 2012. We do not expect to make any contributions to our defined benefit pension plans in 2013.

We also maintain a defined contribution 401(k) plan that permits participation by substantially all employees. Our matching contributions to the 401(k) plan were $30,000 and $78,000, and $25,000 and $81,000 in the three and nine-month periods ended September 30, 2013 and 2012, respectively.

NOTE 6 Stockholders Equity

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

	Common Stock	Class A Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss
Balance at December 31, 2012	$ 1,836	$ 1,851	$ 102,166	$ (55,256)	$ (2,504)
Net earnings				6,782	
Issuance of restricted stock awards, net of forfeitures	15		(15)		
Stock-based compensation			233		
Repurchase and retirement of common stock	(35)		(784)		
Unrealized gain on available-for-sale securities, net of income tax expense of $14					21
Change in net actuarial loss and prior service cost, net of income tax expense of $29					42
Balance at September 30, 2013	$ 1,816	$ 1,851	$ 101,600	$ (48,474)	$ (2,441)

As of September 30, 2013 and December 31, 2012, accumulated other comprehensive loss, net of income taxes, consists of the following:

	September 30, 2013	December 31, 2012
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of $1,703,000 and $1,732,000, respectively	$ (2,481,000)	$ (2,523,000)
Accumulated unrealized gain on available-for-sale securities, net of income tax expense of $29,000 and $15,000, respectively	40,000	19,000
Accumulated other comprehensive loss	$ (2,441,000)	$ (2,504,000)