

DOVER MOTORSPORTS INC
Form 10-Q
November 06, 2018

United States
Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2018

Commission file number 1-11929

Dover Motorsports, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation)

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

1131 North DuPont Highway, Dover, Delaware 19901

(Address of principal executive offices)

(302) 883-6500

(Registrant's telephone number, including area code)

N/A

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

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

| | |
|------------------------|-------------------|
| Common Stock - | 18,142,122 shares |
| Class A Common Stock - | 18,509,975 shares |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Admissions | \$ | \$ 425 | \$ 2,853 | \$ 3,871 |
| Event-related | 227 | 995 | 5,283 | 5,739 |
| Broadcasting | | 1,319 | 18,128 | 18,824 |
| Other | | 1 | 1 | 3 |
| | 227 | 2,740 | 26,265 | 28,437 |
| Expenses: | | | | |
| Operating and marketing | 1,599 | 3,485 | 16,984 | 18,639 |
| General and administrative | 1,798 | 1,774 | 5,552 | 5,590 |
| Depreciation | 793 | 863 | 2,496 | 2,507 |
| Costs to remove long-lived assets | | | | 286 |
| | 4,190 | 6,122 | 25,032 | 27,022 |
| (Loss) gain on sale of land | (99) | | 2,413 | |
| Operating (loss) earnings | (4,062) | (3,382) | 3,646 | 1,415 |
| Interest expense, net | (2) | (34) | (75) | (150) |
| Benefit (provision) for contingent obligation | 4 | 11 | (132) | (41) |
| Other income | 46 | 9 | 77 | 80 |
| (Loss) earnings before income taxes | (4,014) | (3,396) | 3,516 | 1,304 |
| Income tax benefit (expense) | 1,315 | 1,381 | (699) | (521) |
| Net (loss) earnings | (2,699) | (2,015) | 2,817 | 783 |
| Change in net actuarial loss and prior service cost, net of income taxes | 28 | 17 | 81 | 67 |
| Unrealized gain on equity investments, net of income taxes | | 11 | | 17 |
| Comprehensive (loss) income | \$ (2,671) | \$ (1,987) | \$ 2,898 | \$ 867 |
| Net (loss) earnings per common share: | | | | |

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

| | | | | | | | | |
|---------|----|--------|----|--------|----|------|----|------|
| Basic | \$ | (0.07) | \$ | (0.06) | \$ | 0.08 | \$ | 0.02 |
| Diluted | \$ | (0.07) | \$ | (0.06) | \$ | 0.08 | \$ | 0.02 |

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, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 187 | \$ 1 |
| Accounts receivable | 733 | 476 |
| Inventories | 19 | 15 |
| Prepaid expenses and other | 5,827 | 1,119 |
| Income taxes receivable | 1,456 | 562 |
| Assets held for sale | 531 | 2,455 |
| Total current assets | 8,753 | 4,628 |
| Property and equipment, net | 48,764 | 51,000 |
| Nashville Superspeedway facility | 23,567 | 23,545 |
| Other assets | 1,108 | 1,107 |
| Total assets | \$ 82,192 | \$ 80,280 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 738 | \$ 61 |
| Accrued liabilities | 2,904 | 3,049 |
| Payable to Dover Downs Gaming & Entertainment, Inc. | 6 | 7 |
| Contract liabilities | 4,528 | 1,249 |
| Total current liabilities | 8,176 | 4,366 |
| Revolving line of credit | 600 | 3,240 |
| Liability for pension benefits | 896 | 2,819 |
| Provision for contingent obligation | 2,092 | 1,960 |
| Deferred income taxes | 8,618 | 8,673 |
| Total liabilities | 20,382 | 21,058 |
| 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: 18,142,122 and 18,250,440, respectively | | |
| | 1,814 | 1,825 |
| Class A common stock, \$0.10 par value; 55,000,000 shares authorized; shares issued and outstanding: 18,509,975 and 18,509,975, respectively | | |
| | 1,851 | 1,851 |
| Additional paid-in capital | 101,545 | 101,844 |
| Accumulated deficit | (39,968) | (42,858) |
| Accumulated other comprehensive loss | (3,432) | (3,440) |
| Total stockholders' equity | 61,810 | 59,222 |
| Total liabilities and stockholders' equity | \$ 82,192 | \$ 80,280 |

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, | |
|---|------------------------------------|----------|
| | 2018 | 2017 |
| Operating activities: | | |
| Net earnings | \$ 2,817 | \$ 783 |
| Adjustments to reconcile net earnings to net cash (used in) provided by operating activities: | | |
| Depreciation | 2,496 | 2,507 |
| Amortization of credit facility fees | 47 | 48 |
| Stock-based compensation | 237 | 305 |
| Deferred income taxes | (690) | (272) |
| Provision for contingent obligation | 132 | 41 |
| Gains on equity investments | (15) | |
| Gain on sale of land | (2,413) | |
| Changes in assets and liabilities: | | |
| Accounts receivable | (257) | (2,001) |
| Inventories | (4) | 1 |
| Prepaid expenses and other | (4,731) | (3,302) |
| Receivable from/payable to Dover Downs Gaming & Entertainment, Inc. | (1) | (34) |
| Income taxes receivable/payable | (290) | (1,119) |
| Accounts payable | 549 | (191) |
| Accrued liabilities | (145) | 379 |
| Contract liabilities | 3,279 | 3,347 |
| Liability for pension benefits | (1,811) | (326) |
| Net cash (used in) provided by operating activities | (800) | 166 |
| Investing activities: | | |
| Capital expenditures | (762) | (1,779) |
| Proceeds from sale of land, net | 4,945 | |
| Purchases of equity investments | (100) | (142) |
| Proceeds from sale of equity investments | 90 | 134 |
| Net cash provided by (used in) investing activities | 4,173 | (1,787) |
| Financing activities: | | |
| Borrowings from revolving line of credit | 10,200 | 20,660 |
| Repayments on revolving line of credit | (12,840) | (18,620) |
| Repurchase of common stock | (547) | (274) |
| Net cash (used in) provided by financing activities | (3,187) | 1,766 |
| Net increase in cash | 186 | 145 |
| Cash, beginning of period | 1 | 1 |
| Cash, end of period | \$ 187 | \$ 146 |
| Supplemental information: | | |
| Interest paid | \$ 62 | \$ 110 |
| Income tax payments | \$ 1,679 | \$ 1,912 |
| Change in accounts payable for capital expenditures | \$ 128 | \$ (27) |

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 February 27, 2018. In the opinion of management, these consolidated financial statements include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. Operating results for the three and nine-month periods ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 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. As of the date of this filing, our Dover facility promoted the following six events during 2018, all of which will be under the auspices of the premier sanctioning body in motorsports - the National Association for Stock Car Auto Racing (NASCAR):

- 2 NASCAR Cup Series events (May and October);
- 2 NASCAR XFINITY Series events (May and October);
- 1 NASCAR Camping World Truck Series event (May); and
- 1 NASCAR K&N Pro Series East event (October).

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

A NASCAR Cup Series event, a NASCAR XFINITY Series event and a NASCAR Camping World Truck Series event were held at Dover International Speedway during the second quarter of 2018 and 2017. Our fall NASCAR event weekend, which consisted of a K&N Pro Series East event, an XFINITY Series event, and a Monster Energy Cup Series event, was held in October 2018 and on September 29 - October 1 in 2017.

We have hosted the Firefly Music Festival (Firefly) on our property in Dover, Delaware for seven consecutive years. The inaugural three day festival with 40 musical acts was held in July 2012 and the 2018 event was held on June 14-17, 2018 with approximately 120 musical acts. In September 2014, Red Frog Events LLC formed RFGV Festivals LLC - a joint venture with Goldenvoice that promotes Firefly. Goldenvoice is a company of AEG Presents, LLC, a subsidiary of Anschutz Entertainment Group, Inc. AEG Presents, one of the world's largest presenters of live music and entertainment events, announced on July 18, 2018 that it had acquired the remainder of RFGV Festivals LLC from Red Frog. We entered into an amended agreement with RFGV Festivals granting them two 5 year options to extend our facility rental agreement through 2032 (from its original expiration date of 2022) in exchange for a rental commitment to secure our property for up to two festivals per year. Rent is at differing rates depending on how many events are actually held. In addition to the facility rental fee, we also receive a percentage of the concession sales we manage at the events.

Nashville Superspeedway no longer promotes motorsports events and has not entered into sanction agreements with NASCAR since 2011. We lease the facility on a short term basis to third parties from time to time. On August 17, 2017, we entered into an agreement with an entity owned by Panattoni Development Company relative to the sale of approximately 147 acres of land at a purchase price of \$35,000 per acre. On March 2, 2018, we closed on the

sale of the property with proceeds, less closing costs, of \$4,945,000. Net proceeds after taxes are estimated to be approximately \$4,150,000. On September 1, 2017, we also awarded to the purchaser a three year option for 88.03 additional acres at a purchase price of \$55,000 per acre. On February 9, 2018, we amended the option agreement to extend its term and to add additional acreage to the option. The option is for three years beginning March 1, 2018. An additional 86.45 acres were added to the option at a purchase price of \$66,685 per acre and an additional 50.51 acres were added at a purchase price of \$35,000 per acre. The option may only be exercised for all of the 224.99 acres at one time for a total purchase price of \$12,374,000. While management remains committed to selling the remaining Nashville Superspeedway property which consists of over 1,000 acres, we do not believe it is probable that the remaining property will be sold within the next twelve months. At September 30, 2018, \$23,567,000 was reported as long term assets in our consolidated balance sheets. At December 31, 2017, \$2,455,000 representing 147 acres of the total Nashville Superspeedway property was reported as assets held for sale and \$23,545,000 was reported as long term assets in our consolidated balance sheets.

During September 2018, we entered into negotiations to sell a parcel of land we own near St. Louis. The proposed sale would result in a loss of approximately \$99,000, which we have reported as loss on sale of land in our consolidated statements of (loss) earnings. At September 30, 2018, \$531,000 representing the fair value of the land is reported as assets held for sale in our consolidated balance sheets.

NOTE 3 Summary of Significant Accounting Policies

Property and equipment Property and equipment is stated at cost. Depreciation is provided using the straight-line method over the asset's estimated useful life. Accumulated depreciation was \$62,265,000 and \$59,787,000 as of September 30, 2018 and December 31, 2017, respectively.

In the fourth quarter of 2016, we began removing certain grandstand seating that had been taken out of service and written-off in 2015. We incurred costs of \$286,000 in the first quarter of 2017 to remove the seating which is included in costs to remove long-lived assets in our consolidated statements of earnings for the six months ended June 30, 2017. As of March 31, 2017, these assets had been removed and no further costs have been incurred.

Revenue recognition We classify our revenues as admissions, event-related, broadcasting and other. Admissions revenue includes ticket sales for our events. Event-related revenue includes amounts received from sponsorship fees; luxury suite rentals; hospitality tent rentals and catering; concessions and vendor commissions for the right to sell concessions and souvenirs at our events; sales of programs; track rentals; broadcasting rights other than domestic television broadcasting revenue, 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 we manage from the Firefly Music Festival. Broadcasting revenue includes rights fees obtained for domestic television broadcasts of events held at our speedway.

All of our revenues are based on contracts with customers and, with the exception of certain track rentals, relate to two NASCAR event weekends and the Firefly Music Festival held at our Dover facility. Our contracts are typically for specific events or a racing season. We have several multi-year sponsorship contracts for our racing events and our contract with the promoter of the Firefly Music Festival is multi-year. Revenues pertaining to specific events are deferred and recorded as contract liabilities in our consolidated balance sheets until the event is held. As of September 30, 2018, contract liabilities in our consolidated balance sheets of \$4,413,000 and \$115,000 relate to 2018 and 2019 events, respectively. As of December 31, 2017, contract liabilities in our consolidated balance sheets relate to 2018 events. Concession and souvenir revenues are recorded at the time of sale. Revenues and related expenses from barter transactions in which we provide sponsorship packages in exchange for goods or services are recorded at fair value. Barter transactions accounted for \$239,000 of total revenues for each of the

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

nine-month periods ended September 30, 2018 and 2017.

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

The following table summarizes the liability activity related to contracts with customers for the three and nine-month periods ended September 30, 2018 and 2017:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|----------|---------------------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Balance, beginning of period | \$ 1,700 | \$ 2,252 | \$ 1,249 | \$ 1,355 |
| Reductions from beginning balance | | (225) | (778) | (902) |
| Additional liabilities recorded during the period | 2,828 | 3,379 | 8,525 | 10,106 |
| Reduction of additional liabilities recorded during the period, not from beginning balance | | (704) | (4,468) | (5,857) |
| Balance, end of period | \$ 4,528 | \$ 4,702 | \$ 4,528 | \$ 4,702 |

We have contracted future revenues representing unsatisfied performance obligations. These contracts contain initial terms typically ranging from one to three years, with some for longer periods, excluding renewal options. We have excluded unsatisfied performance obligations for future NASCAR broadcasting revenue with contract terms through 2024. We anticipate recognizing unsatisfied performance obligations for the calendar year ending 2019 and beyond of approximately \$4,600,000 at September 30, 2018.

Under the terms of our sanction agreements with NASCAR, we receive a portion of the broadcast revenue NASCAR negotiates with various television networks. NASCAR typically remits payment to us for the broadcast revenue within 30 days of the event being held. 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 The cost of advertising is expensed as incurred. Advertising expenses were \$539,000 and \$1,144,000, and \$132,000 and \$724,000 for the three and nine-month periods ended September 30, 2018 and 2017, respectively. Certain direct expenses pertaining to specific events, including prize and point fund monies and sanction fees paid to NASCAR, and other expenses associated with our racing events are deferred until the event is held, at which point they are expensed. As a result of adopting Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, certain expenses previously deferred until an event occurred are now expensed as incurred.

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):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|------|---------------------------------|------|
| | 2018 | 2017 | 2018 | 2017 |
| Net (loss) earnings per common share basic and diluted: | | | | |

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

| | | | | | | | | | |
|--|-------------------|----|---------|----|---------|----|--------|----|--------|
| Net (loss) earnings | | \$ | (2,699) | \$ | (2,015) | \$ | 2,817 | \$ | 783 |
| Allocation to nonvested restricted stock awards | | | | | | | 45 | | 12 |
| Net (loss) earnings available to common stockholders | | \$ | (2,699) | \$ | (2,015) | \$ | 2,772 | \$ | 771 |
| Weighted-average shares outstanding | basic and diluted | | 36,102 | | 36,282 | | 36,165 | | 36,299 |
| Net (loss) earnings per common share | basic and diluted | \$ | (0.07) | \$ | (0.06) | \$ | 0.08 | \$ | 0.02 |

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

Accounting for stock-based compensation We recorded total stock-based compensation expense for our restricted stock awards of \$66,000 and \$237,000, and \$60,000 and \$305,000 as general and administrative expenses for the three and nine-month periods ended September 30, 2018 and 2017, respectively. We recorded income tax benefits of \$18,000 and \$64,000, and \$24,000 and \$143,000 for the three and nine-month periods ended September 30, 2018 and 2017, respectively, related to vesting of our restricted stock awards.

Recent accounting pronouncements In August 2018, the FASB issued ASU No. 2018-14, *Compensation Retirement Benefits Defined Benefit Plans General*. This new standard makes changes to the disclosure requirements for sponsors of defined benefit pension and/or other postretirement benefit plans to improve effectiveness of notes to the financial statements. ASU 2018-14 is effective for fiscal years ending after December 15, 2020, and requires retrospective adoption. Early adoption is permitted. We are currently analyzing the impact of this ASU and we do not expect it to have a significant impact on our financial statement disclosures.

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

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)*. ASU 2017-07 provides guidance on the presentation of the service cost component and the other components of net period pension cost in the consolidated statements of earnings. The standard is effective for annual and interim reporting periods beginning after December 15, 2017 and requires retrospective adoption. We adopted this ASU effective January 1, 2018, which resulted in a reclassification of \$4,000 and \$29,000 of pension benefit from general and administrative expenses to other income in our consolidated statements of earnings for the three and nine-month periods ended September 30, 2017.

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

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Some of the amendments include the following: 1) Require certain equity investments to be measured at fair value with changes in fair value recognized in net income; 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) Require public business entities to use exit price notion when measuring fair value of financial instruments for disclosure purposes; 4) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting in a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others. The update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted this standard effective January 1, 2018. In accordance with the standard, we reclassified \$73,000, net of

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

income taxes, of unrealized gains from accumulated other comprehensive loss to accumulated deficit as of January 1, 2018. See NOTE 6 Stockholders' Equity. Additionally, changes in fair value of equity investments are now included in other income in our consolidated statements of earnings. See NOTE 7 Fair Value Measurements.

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

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

Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted this standard effective January 1, 2018 using the retrospective with cumulative effect method. We have reviewed our sponsorship agreements, sanctioning agreements and other contracts, as well as our accounting for certain costs associated with our events. The adoption of the new revenue standard did not have a material impact on our revenues, results of operations or financial position. However, we have expanded certain disclosures as required. See *Revenue recognition* above.

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

NOTE 4 Long-Term Debt

At September 30, 2018, Dover Motorsports, Inc. and its wholly owned subsidiaries Dover International Speedway, Inc. and Nashville Speedway, USA, Inc., as co-borrowers had a \$35,000,000 credit agreement with a bank group. The credit facility expires on July 31, 2020. Interest is based upon LIBOR plus a margin that varies between 125 and 175 basis points depending on the leverage ratio (125 basis points at September 30, 2018). The credit facility contains certain covenants including maximum funded debt to earnings before interest, taxes, depreciation and amortization (leverage ratio) and a minimum fixed charge coverage ratio. Material adverse changes in our results of operations could impact our ability to maintain financial ratios necessary to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause. 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, 2018, we were in compliance with the terms of the credit facility. The credit facility provides for seasonal funding needs, capital improvements, letter of credit requirements and other general corporate purposes. At September 30, 2018, there was \$600,000 outstanding under the credit facility at an interest rate of 3.51%. After consideration of stand-by letters of credit outstanding, the remaining maximum borrowings available pursuant to the credit facility were \$19,758,000 at September 30, 2018. 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. Compensation earned by employees up to July 31, 2011 is used for purposes of calculating benefits under our pension plan with no future benefit accruals after this date. We also maintain a non-qualified, non-contributory defined benefit pension plan, the excess plan, for certain employees that has been frozen since July 2011. This excess plan provided benefits that would otherwise be provided under the qualified pension plan but for maximum benefit and compensation limits applicable under federal tax law. The cost associated with the excess plan is determined using the same actuarial methods and assumptions as those used for our qualified pension plan. The assets for the excess plan aggregate \$1,079,000 and \$1,052,000 as of September 30, 2018 and December 31, 2017, respectively, and are recorded in other assets in our consolidated balance sheets (see NOTE 7 Fair Value Measurements).

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|-------------------------------------|------------|------------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest cost | \$ 116,000 | \$ 126,000 | \$ 346,000 | \$ 344,000 |
| Expected return on plan assets | (179,000) | (159,000) | (519,000) | (486,000) |
| Recognized net actuarial loss | 40,000 | 29,000 | 112,000 | 113,000 |
| | \$ (23,000) | \$ (4,000) | \$ (61,000) | \$ (29,000) |

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

We contributed \$750,000 and \$1,750,000 to our defined benefit pension plans during the three and nine-month periods ended September 30, 2018, respectively. While we have no minimum required pension contributions for 2018, we will consider making additional contributions during the remainder of 2018. We contributed \$150,000 and \$200,000 to our defined benefit pension plans during the three and nine-month periods ended September 30, 2017, respectively.

We also maintain a non-elective, non-qualified supplemental executive retirement plan (SERP) which provides deferred compensation to certain highly compensated employees that approximates the value of benefits lost by the freezing of the pension plan which are not offset by our enhanced matching 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 periods ended September 30, 2018 and 2017, we recorded expenses of \$21,000 and \$68,000, and \$20,000 and \$60,000, respectively, related to the SERP. During the three and nine-month periods ended September 30, 2018 and 2017, we contributed \$0 and \$85,000, and \$0 and \$96,000 to the plan, respectively. The liability for SERP pension benefits was \$64,000 and \$81,000 as of September 30, 2018 and December 31, 2017, respectively, and is included in accrued liabilities in our consolidated balance sheets.

We maintain a defined contribution 401(k) plan that permits participation by substantially all employees. Our matching contributions to the 401(k) plan were \$35,000 and \$101,000, and \$34,000 and \$96,000 in the three and nine-month periods ended September 30, 2018 and 2017, 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, 2017 | \$ 1,825 | \$ 1,851 | \$ 101,844 | \$ (42,858) | \$ (3,440) |
| Adoption of ASU 2016-01 (see NOTE 3) | | | | 73 | (73) |
| Net earnings | | | | 2,817 | |

15

(15)

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

| | | | | | | | | |
|--|----|-------|----|-------|----|---------|----|------------|
| Issuance of restricted stock awards, net of forfeitures | | | | | | | | |
| Stock-based compensation | | | | | | 237 | | |
| Repurchase and retirement of common stock | | (26) | | | | (521) | | |
| Change in net actuarial loss and prior service cost, net of income tax expense of \$31 | | | | | | | | 81 |
| Balance at September 30, 2018 | \$ | 1,814 | \$ | 1,851 | \$ | 101,545 | \$ | (39,968) |
| | | | | | | | | \$ (3,432) |

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

As of September 30, 2018 and December 31, 2017, accumulated other comprehensive loss, net of income taxes, consists of the following:

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|-----------------------|
| Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of \$2,379,000 and \$2,410,000, respectively | \$ (3,432,000) | \$ (3,513,000) |
| Accumulated unrealized gain on available-for-sale securities, net of income tax expense of \$52,000 | | 73,000 |
| Accumulated other comprehensive loss | \$ (3,432,000) | \$ (3,440,000) |

On July 28, 2004, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. During the first nine months of 2018 and 2017, we purchased and retired 212,082 and 78,696 shares of our outstanding common stock at an average purchase price of \$2.09 and \$2.10 per share, respectively, not including nominal brokerage commissions. At September 30, 2018, we had remaining repurchase authority of 797,495 shares.

We have a stock incentive plan, adopted in 2014, 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 151,000 stock awards under this plan during each of the nine months ended September 30, 2018 and 2017. As of September 30, 2018, there were 1,440,730 shares available for granting options or stock awards.

During the nine months ended September 30, 2018 and 2017, we purchased and retired 47,236 and 46,179 shares of our outstanding common stock at an average purchase price of \$2.00 and \$2.27 per share, respectively. These purchases were made from employees in connection with the vesting of restricted stock awards under our Stock Incentive Plan and were not pursuant to the aforementioned repurchase authorization. Since the vesting of a restricted stock award is a taxable event to our employees for which income tax withholding is required, the plan allows employees to surrender to us some of the shares that would otherwise have transferred to the employee in satisfaction of their tax liability. The surrender of these shares is treated by us as a purchase of the shares.

NOTE 7 Fair Value Measurements

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

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

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;

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

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 September 30, 2018 and December 31, 2017:

| | Total | Level 1 | Level 2 | Level 3 |
|---------------------------|--------------|----------------|----------------|----------------|
| September 30, 2018 | | | | |
| Equity investments | \$ 1,079,000 | \$ 1,079,000 | \$ | \$ |
| December 31, 2017 | | | | |
| Equity investments | \$ 1,052,000 | \$ 1,052,000 | \$ | \$ |

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

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

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2018 | |
|--|---|---------|--|----------|
| Net gains recognized during the period on equity investments | \$ | 21,000 | \$ | 15,000 |
| Less: net gains recognized during the period on equity investments sold during the period | | (2,000) | | (15,000) |
| Unrealized gains recognized during the period on equity investments still held at period end | \$ | 19,000 | \$ | |

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

At September 30, 2018 and December 31, 2017, there was \$600,000 and \$3,240,000 outstanding under our revolving credit agreement, respectively. The borrowings under our revolving credit agreement bear interest at the variable rate described in NOTE 4 – Long-Term Debt and therefore we believe approximate fair value.

NOTE 8 Related Party Transactions

During the three and nine-month periods ended September 30, 2018 and 2017, Dover Downs Gaming & Entertainment, Inc. (Gaming), a company related through common ownership, allocated costs of \$440,000 and \$1,325,000, and \$457,000 and \$1,426,000, respectively, to us for certain administrative and operating services, including leased space. We allocated certain administrative and operating service costs of \$22,000 and \$162,000, and \$24,000 and \$164,000, respectively, to Gaming for the three and nine-month periods ended September 30, 2018 and 2017. The allocations were based on an analysis of each company's share of the costs. In connection with our 2018 and 2017 NASCAR event weekends at Dover International Speedway, Gaming provided certain services, primarily catering, for which we were invoiced \$10,000 and \$401,000, and \$14,000 and \$474,000 during the three and nine-month periods ended September 30, 2018 and 2017, respectively. Additionally, we invoiced Gaming \$26,000 and \$141,000, and \$56,000 and \$163,000 during the three and nine-month periods ended September 30, 2018 and 2017, respectively, for tickets, our commission for suite catering and other services to the NASCAR events. As of September 30, 2018 and December 31, 2017, respectively, our consolidated balance sheets included \$6,000 and \$7,000 of payables to Gaming for the aforementioned items. We settled these items in October and January of 2018. The net costs incurred by each company for these services are not necessarily indicative of the costs that would have been incurred if the companies had been unrelated entities and/or had otherwise independently managed these functions; however, management believes that these costs are reasonable.

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

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

Various easements and agreements relative to access, utilities and parking have also been entered into between us and Gaming relative to our respective Dover, Delaware facilities. We pay rent to Gaming for the lease of our principal executive office space. Gaming also allows us to use its indoor grandstands in connection with our two annual motorsports weekends. This occasional grandstand use is not material to us and Gaming does not assess rent for it; Gaming may also discontinue our use at its discretion.

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

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

NOTE 9 - Commitments and Contingencies

In September 1999, the Sports Authority of the County of Wilson (Tennessee) issued \$25,900,000 in Variable Rate Tax Exempt Infrastructure Revenue Bonds, Series 1999, to acquire, construct and develop certain public infrastructure improvements which benefit Nashville Superspeedway, of which \$14,400,000 was outstanding at September 30, 2018. Annual principal payments range from \$1,000,000 in September 2019 to \$1,600,000 in 2029 and are payable solely from sales taxes and incremental property taxes generated from the facility. These bonds are direct obligations of the Sports Authority and therefore have historically not been required to be recorded on our consolidated balance sheet. If the sales taxes and incremental property taxes (applicable taxes) are insufficient for the payment of principal and interest on the bonds, we would become responsible for the difference. In the event we were unable to make the payments, they would be made pursuant to a \$14,642,000 irrevocable direct-pay letter of credit issued by our bank group. We are exposed to fluctuations in interest rates for these bonds.

As of September 30, 2018 and December 31, 2017, \$1,153,000 and \$1,479,000, respectively, was available in the sales and incremental property tax fund maintained by the Sports Authority to pay the remaining principal and interest due under the bonds. During the first nine months of 2018, we paid \$979,000 into the sales and incremental property tax fund and \$1,305,000 was deducted from the fund for debt service. If we fail to maintain the letter of credit that secures the bonds or we allow an uncured event of default to exist under our reimbursement agreement relative to the letter of credit, the bonds would be immediately redeemable.

Nashville Superspeedway no longer promotes motorsports events and has not entered into sanction agreements with NASCAR since 2011. We lease the facility on a short term basis to third parties from time to time. In 2011 we recorded a \$2,250,000 provision for contingent obligation reflecting the present value of the estimated portion of the revenue bonds debt service that may not be covered by the projected sales and incremental property taxes from the facility. Due to changing interest rates, the provision for contingent obligation (decreased) increased by (\$4,000) and \$132,000, and (\$11,000) and \$41,000 in the three and nine-month periods ended September 30, 2018 and 2017, respectively, and is \$2,092,000 at September 30, 2018. An increase in the bonds' interest rates would result in an increase in the portion of debt service not covered by applicable taxes and therefore an increase in our liability.

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

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

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

Results of Operations

Three Months Ended September 30, 2018 vs. Three Months Ended September 30, 2017

Our fall NASCAR event weekend, which consists of a K&N Pro Series East event, an XFINITY Series event, and a Monster Energy Cup Series event was held on October 5 - 7 in 2018 and September 29 - October 1 in 2017. Revenues were higher for the three months ended September 30, 2017 as the NASCAR K&N Pro Series East and XFINITY Series events were held in the third quarter of 2017 and the fourth quarter of 2018.

Operating and marketing expenses were lower in the third quarter of 2018 due to the timing of the fall NASCAR events. This decrease was partially offset by the timing of advertising expenses.

General and administrative expenses remained consistent at \$1,798,000 in the third quarter of 2018 as compared to \$1,774,000 in the third quarter of 2017.

Depreciation expense decreased to \$793,000 in the third quarter of 2018 from \$863,000 in the third quarter of 2017.

Loss on sale of land in the third quarter of 2018 relates to the pending sale of a parcel of land we own near St. Louis.

Net interest expense decreased to \$2,000 in the third quarter of 2018 from \$34,000 in the third quarter of 2017 due to lower average outstanding borrowings, partially offset by higher interest rates.

Our effective income tax rates for the third quarter of 2018 and 2017 were 32.8% and 40.7%, respectively. The 2018 rate was impacted by the passage of the Tax Cuts and Jobs Act in December of 2017 and deductions for additional contributions made to our pension plan in 2018.

Nine Months Ended September 30, 2018 vs. Nine Months Ended September 30, 2017

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

We promoted three NASCAR racing events during the first nine months of 2018 as compared to five NASCAR racing events at our Dover International Speedway facility during the first nine months of 2017. The fall NASCAR K&N Pro Series East and XFINITY Series events were held in the third quarter of 2017 and the fourth quarter of 2018.

Admissions revenue was \$2,853,000 in the first nine months of 2018 as compared to \$3,871,000 in the first nine months of 2017. The \$1,018,000 decrease was related to the timing of the fall NASCAR events and lower attendance at our 2018 spring NASCAR event weekend at Dover International Speedway. We believe holding the spring NASCAR weekend in early May as compared to early June last year at least partially contributed to the decline in attendance.

Event-related revenue was \$5,283,000 in the first nine months of 2018 as compared to \$5,739,000 in the first nine months of 2017. The \$456,000 decrease was due to the timing of the fall NASCAR events, partially offset by higher sponsorship revenues from our 2018 spring NASCAR event weekend, increased facility rentals at our Nashville location, and higher revenues from the 2018 Firefly Music Festival.

Broadcasting revenue decreased to \$18,128,000 in the first nine months of 2018 as compared to \$18,824,000 in the first nine months of 2017 due to the timing of the fall NASCAR events, partially offset by contractual increases in NASCAR's broadcasting rights agreement.

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

Operating and marketing expenses were \$16,984,000 in the first nine months of 2018 as compared to \$18,639,000 in the first nine months of 2017. The decrease was related to the timing of the fall NASCAR events, partially offset by higher purse and sanction fees for our spring NASCAR event weekend and the timing of advertising expenses.

General and administrative expenses decreased slightly to \$5,552,000 in the first nine months of 2018 from \$5,590,000 in the first nine months of 2017. The decrease was primarily due to lower stock-based compensation in 2018.

Depreciation expense remained consistent at \$2,496,000 in the first nine months of 2018 as compared to \$2,507,000 in the first nine months of 2017.

Costs to remove long-lived assets related to costs associated with the removal and disposal of grandstand seating at our Dover facility. These assets had been removed as of the end of the first quarter of 2017 and no further costs were incurred.

Gain on sale of land in the first nine months of 2018 relates to the sale of approximately 147 acres of land at our Nashville facility. Proceeds from the sale, net of closing costs, were \$4,945,000. This gain was partially offset by a loss on the pending sale of a parcel of land we own near St. Louis in the third quarter of 2018.

Net interest expense decreased to \$75,000 in the first nine months of 2018 from \$150,000 in the first nine months of 2017 due to lower average outstanding borrowings, partially offset by higher interest rates.

Our effective income tax rates for the first nine months of 2018 and 2017 were 19.9% and 40.0%, respectively. The 2018 rate was impacted by the passage of the Tax Cuts and Jobs Act in December of 2017 and deductions for additional contributions made to our pension plan in 2018.

Liquidity and Capital Resources

Our operations and cash flows from operating activities are seasonal in nature.

Net cash used in operating activities was \$800,000 for the first nine months of 2018 as compared to net cash provided by operating activities of \$166,000 for the first nine months of 2017. The change was primarily due to contributions of \$1,750,000 to our defined benefit pension plan in the first nine months of 2018 compared to \$200,000 in the first nine months of 2017, and the timing of the fall NASCAR K&N Pro Series East and XFINITY Series events. Partially offsetting this was a decrease in income tax payments in the first nine months of 2018 compared to the first nine months of 2017.

Net cash provided by investing activities was \$4,173,000 for the first nine months of 2018 as compared to net cash used in investing activities \$1,787,000 for the first nine months of 2017. Capital expenditures of \$762,000 in the first nine months of 2018 related primarily to

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

improvements at our Dover facility and equipment purchases. Capital expenditures of \$1,779,000 in the first nine months of 2017 related primarily to the installation of SAFER barriers, equipment purchases, and improvements at our Dover facility. On March 2, 2018, we closed on the sale of approximately 147 acres of land at our Nashville Superspeedway facility for proceeds of \$4,945,000, net of closing costs.

Net cash used in financing activities was \$3,187,000 for the first nine months of 2018 as compared to net cash provided by financing activities of \$1,766,000 for the first nine months of 2017. We had net repayments on our outstanding line of credit of \$2,640,000 in the first nine months of 2018 as compared to net borrowings of \$2,040,000 in the first nine months of 2017. During the first nine months of 2018 and 2017, respectively, we purchased and retired 212,082 and 78,696 shares of our outstanding common stock for \$453,000 and \$169,000 from the open market. Additionally, we purchased and retired 47,236 and 46,179 shares of our outstanding common stock for \$94,000 and \$105,000 during the first nine months of 2018 and 2017, respectively, from employees in connection with the vesting of restricted stock awards under our stock incentive plan.

At September 30, 2018, Dover Motorsports, Inc. and its wholly owned subsidiaries Dover International Speedway, Inc. and Nashville Speedway, USA, Inc., as co-borrowers had a \$35,000,000 credit agreement with a bank group. The credit facility expires on July 31, 2020. Interest is based upon LIBOR plus a margin that varies between 125 and 175 basis points depending on the leverage ratio (125 basis points at September 30, 2018). The credit facility contains certain covenants including maximum funded debt to earnings before interest, taxes, depreciation and amortization (leverage ratio) and a minimum fixed charge coverage ratio. Material adverse changes in our results of operations could impact our ability to maintain financial ratios necessary to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause. 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, 2018, we were in compliance with the terms of the credit facility. The credit facility provides for seasonal funding needs, capital improvements, letter of credit requirements and other general corporate purposes. At September 30, 2018, there was \$600,000 outstanding under the credit facility at an interest rate of 3.51%. After consideration of stand-by letters of credit outstanding, the remaining maximum borrowings available pursuant to the credit facility were \$19,758,000 at September 30, 2018. We expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods during the next twelve months.

Nashville Superspeedway no longer promotes motorsports events and has not entered into sanction agreements with NASCAR since 2011. We lease the facility on a short term basis to third parties from time to time. On August 17, 2017, we entered into an agreement with an entity owned by Panattoni Development Company relative to the sale of approximately 147 acres of land at a purchase price of \$35,000 per acre. On March 2, 2018, we closed on the sale of the property with proceeds, less closing costs, of \$4,945,000. Net proceeds after taxes are estimated to be approximately \$4,150,000. On September 1, 2017, we also awarded to the purchaser a three year option for 88.03 additional acres at a purchase price of \$55,000 per acre. On February 9, 2018, we amended the option agreement to extend its term and to add additional acreage to the option. The option is for three years beginning March 1, 2018. An additional 86.45 acres were added to the option at a purchase price of \$66,685 per acre and an additional 50.51 acres were added at a purchase price of \$35,000 per acre. The option may only be exercised for all of the 224.99 acres at one time for a total purchase price of \$12,374,000. While management remains committed to selling the remaining Nashville Superspeedway property which consists of over 1,000 acres, we do not believe it is probable that the remaining property will be sold within the next twelve months. At September 30, 2018, \$23,567,000 was reported as long term assets in our consolidated balance sheets. At December 31, 2017, \$2,455,000 representing 147 acres of the total Nashville Superspeedway property was reported as assets held for sale and \$23,545,000 was reported as long term assets in our consolidated balance sheets.

During September 2018, we entered into negotiations to sell a parcel of land we own near St. Louis. The proposed sale would result in a loss of approximately \$99,000, which we have reported as loss on sale of land in our consolidated statements of (loss) earnings. At September 30, 2018, \$531,000 representing the fair value of the land is reported as assets held for sale in our consolidated balance sheets.

As of the date of this filing, we promoted six racing events in 2018 (five national series events and one regional series event), all of which were sanctioned by NASCAR and held at our Dover International Speedway facility. We also promoted the same six racing events in 2017. We have entered into five year sanction agreements with NASCAR for each of the five national series events for 2016-2020. NASCAR's regional series events are sanctioned on an annual basis.

Broadcasting revenues continue to be a significant long-term revenue source for our business. Management believes this long-term contracted revenue helps stabilize our financial strength, earnings and cash flows. Also, NASCAR ratings can impact attendance at our events and sponsorship opportunities. A substantial portion of our profits in recent years has resulted from television revenues received from NASCAR under its agreements with various television networks, which is expected to continue for the foreseeable future. Our share of these television broadcast revenues and purse and sanction fees are fixed under our NASCAR sanction agreements through the year 2020. We are obligated to conduct events in the manner stipulated under the terms and conditions of these sanctioning agreements.

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

NASCAR is operating under a ten-year, multi-platform agreement with FOX Sports Media Group (FOX) for the broadcasting and digital rights to 16 NASCAR Cup Series races, 14 XFINITY Series races and the entire Camping World Truck Series (along with practice and qualifying) from 2015 through 2024. The agreement includes

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

TV Everywhere rights that allow live-streaming of all FOX races, before and after race coverage, in-progress and finished race highlights, and replays of FOX-televised races to a Fox Sports-affiliated website which began in 2013. The agreement also allows re-telecast of races on a FOX network and via video-on-demand for 24 hours and other ancillary programming, including a nightly NASCAR news and information show and weekend at-track shows. NASCAR and FOX Deportes, the number one US Latino sports network, have teamed up to provide our sport's most expansive Spanish-language broadcast offering ever with coverage of 15 NASCAR Cup Series races which started in 2013.

NASCAR also operates under a ten-year comprehensive agreement with NBC Sports Group granting NBCUniversal (NBC) exclusive rights to 20 NASCAR Cup Series races, 19 NASCAR XFINITY Series events, select NASCAR Regional & Touring Series events and other live content which began in 2015. Further, NBC has been granted Spanish-language rights, certain video-on-demand rights and exclusive TV Everywhere rights for its NASCAR Cup Series and NASCAR XFINITY Series events.

Looking forward, our sanction agreements with NASCAR contain annual increases of between 3 and 4 percent in media rights fees for each sanctioned event conducted, and provide a specific percentage of media rights fees to be paid to competitors. The sanction agreements also provide for annual increases in sanction fees and non-media rights related prize and point fund monies (to be paid to competitors) of between 4 and 4.5 percent annually over the term of the agreements.

We have hosted the Firefly Music Festival (Firefly) on our property in Dover, Delaware for seven consecutive years. The inaugural three day festival with 40 musical acts was held in July 2012 and the 2018 event was held on June 14-17, 2018 with approximately 120 musical acts. In September 2014, Red Frog Events LLC formed RFGV Festivals LLC - a joint venture with Goldenvoice that promotes Firefly. Goldenvoice is a company of AEG Presents, LLC, a subsidiary of Anschutz Entertainment Group, Inc. AEG Presents, one of the world's largest presenters of live music and entertainment events, announced on July 18, 2018 that it had acquired the remainder of RFGV Festivals LLC from Red Frog. We entered into an amended agreement with RFGV Festivals granting them two 5 year options to extend our facility rental agreement through 2032 (from its original expiration date of 2022) in exchange for a rental commitment to secure our property for up to two festivals per year. Rent is at differing rates depending on how many events are actually held. In addition to the facility rental fee, we also receive a percentage of the concession sales we manage at the events.

We expect that our net cash flows from operating activities and funds available from our credit facility will be sufficient to provide for our working capital needs, capital spending requirements, stock repurchases, as well as any cash dividends our Board of Directors may declare at least through the next twelve months and also provide for our long-term liquidity. On October 24, 2018, our Board of Directors declared an annual cash dividend on both classes of common stock of \$.08 per share to be paid on December 10, 2018. Based on current business conditions, we expect to spend approximately \$400,000 on capital expenditures during the remainder of 2018. We contributed \$1,750,000 to our defined benefit pension plans during the first nine months of 2018.

Contractual Obligations

At September 30, 2018, we had the following contractual obligations and other commercial commitments:

| | Total | 2018 | Payments Due by Period | | | Thereafter |
|--|------------|-------|------------------------|------|-----------|------------|
| | | | 2019 | 2020 | 2021 2022 | |
| Revolving line of credit | \$ 600,000 | \$ | \$ 600,000 | \$ | | \$ |
| Estimated interest payments on revolving line of credit(a) | 35,000 | 5,000 | 30,000 | | | |
| Contingent obligation(b) | 2,092,000 | | | | | 2,092,000 |

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

Total contractual cash obligations \$ 2,727,000 \$ 5,000 \$ 630,000 \$ \$ 2,092,000

(a) The future interest payments on our revolving credit agreement were estimated using the current outstanding principal as of September 30, 2018 and current interest rates.

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

(b) In September 1999, the Sports Authority of the County of Wilson (Tennessee) issued \$25,900,000 in Variable Rate Tax Exempt Infrastructure Revenue Bonds, Series 1999, to acquire, construct and develop certain public infrastructure improvements which benefit Nashville Superspeedway, of which \$14,400,000 was outstanding at September 30, 2018. Annual principal payments range from \$1,000,000 in September 2019 to \$1,600,000 in 2029 and are payable solely from sales taxes and incremental property taxes generated from the facility. These bonds are direct obligations of the Sports Authority and therefore have historically not been required to be recorded on our consolidated balance sheet. If the applicable taxes are insufficient for the payment of principal and interest on the bonds, we would become responsible for the difference. In the event we were unable to make the payments, they would be made pursuant to a \$14,642,000 irrevocable direct-pay letter of credit issued by our bank group. We are exposed to fluctuations in interest rates for these bonds.

As of September 30, 2018 and December 31, 2017, \$1,153,000 and \$1,479,000, respectively, was available in the sales and incremental property tax fund maintained by the Sports Authority to pay the remaining principal and interest due under the bonds. During the first nine months of 2018, we paid \$979,000 into the sales and incremental property tax fund and \$1,305,000 was deducted from the fund for debt service. If we fail to maintain the letter of credit that secures the bonds or we allow an uncured event of default to exist under our reimbursement agreement relative to the letter of credit, the bonds would be immediately redeemable.

Nashville Superspeedway no longer promotes motorsports events and has not entered into sanction agreements with NASCAR since 2011. We lease the facility on a short term basis to third parties from time to time. In 2011 we recorded a \$2,250,000 provision for contingent obligation reflecting the present value of the estimated portion of the revenue bonds debt service that may not be covered by the projected sales and incremental property taxes from the facility. Due to changing interest rates, the provision for contingent obligation (decreased) increased by (\$4,000) and \$132,000, and (\$11,000) and \$41,000 in the three and nine-month periods ended September 30, 2018 and 2017, respectively, and is \$2,092,000 at September 30, 2018. See NOTE 9 Commitments and Contingencies of the consolidated financial statements included elsewhere in this document for further discussion.

Related Party Transactions

See NOTE 8 Related Party Transactions of the consolidated financial statements included elsewhere in this document.

Critical Accounting Policies

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

Recent Accounting Pronouncements

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

Factors That May Affect Operating Results; Forward-Looking Statements

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

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

Not applicable.

Item 4. **Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

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

Based on their evaluation as of September 30, 2018, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. **Legal Proceedings**

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

Item 1A. **Risk Factors**

Not applicable.

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

Edgar Filing: DOVER MOTORSPORTS INC - Form 10-Q

On July 28, 2004, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. During the third quarter of 2018 and 2017, we purchased and retired 65,038 and 78,696 shares of our outstanding common stock at an average purchase price of \$2.12 and \$2.10 per share, respectively, not including nominal brokerage commissions. At September 30, 2018, we had remaining repurchase authority of 797,495 shares.

Item 3. **Defaults Upon Senior Securities**

None.

Item 4. **Mine Safety Disclosures**

Not applicable.

Item 5. **Other Information**

None.

Item 6. **Exhibits**

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

- 101 The following materials from the Dover Motorsports, Inc. quarterly report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income for the three and nine months ended September 30, 2018 and 2017; (ii) Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017; (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017; and (iv) Notes to the Consolidated Financial Statements.

Signatures

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

DATED: November 6, 2018

Dover Motorsports, Inc.
Registrant

/s/

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

/s/

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