

DOVER DOWNS GAMING & ENTERTAINMENT INC
Form 10-K
March 09, 2012

United States
Securities and Exchange Commission

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2011

Commission file number 1-16791

Dover Downs Gaming & Entertainment, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

51-0414140
(I.R.S. Employer Identification No.)

1131 North DuPont Highway, Dover, Delaware 19901

(Address of principal executive offices)

(302) 674-4600

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of common stock held by non-affiliates of the registrant was \$48,170,960 as of June 30, 2011 (the last day of our most recently completed second quarter).

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As of February 24, 2012, the number of shares of each class of the registrant's common stock outstanding is as follows:

Common Stock -	15,895,348 shares
Class A Common Stock -	16,603,173 shares

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement in connection with the Annual Meeting of Stockholders to be held April 25, 2012 are incorporated by reference into Part III, Items 10 through 14 of this report.

Part I

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

Item 1. Business

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

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

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

During the third quarter of 2009, we opened our Race & Sports Book operation and Frankie's Italian restaurant. The Race & Sports Book features parlay sports wagering on National Football League (NFL) games and pari-mutuel wagering on live and simulcast horse races. In January 2010, the Delaware legislature authorized table games at the facilities of the State's three video lottery agents. On June 25, 2010, we opened our table game operations with 40 tables including blackjack, craps and roulette tables. The Crown Royal poker room opened on July 14, 2010 with 12 poker tables.

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

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

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

Our license from the Delaware Harness Racing Commission to hold harness race meetings on our premises and to offer pari-mutuel wagering on live and simulcast horse races must be renewed on an annual basis. In order to maintain our gaming license, we are required to maintain our harness horse racing license. We have received an

annual license from the Harness Racing Commission for the past 43 consecutive years and management believes that our relationship with the Commission remains good.

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

Dover Downs Casino

Our casino opened in December 1995 with approximately 500 slot machines. Due to its popularity, the casino has expanded six times since its opening and the number of machines has increased to 2,539 at December 31, 2011. The most recent expansion, which was completed in September of 2008, added approximately 68,000 square-feet of space bringing our casino complex to 165,000 square-feet. We are open for business 24 hours per day, seven days per week. Our facilities are open every day of the year, except Christmas and Easter, and we estimate that the facility was visited by approximately 2.6 million patrons in 2011.

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

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

During the third quarter of 2009, we opened our Race & Sports Book operation featuring parlay sports wagering on NFL games and pari-mutuel wagering on live and simulcast horse races.

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

We use sophisticated database marketing to enable us to develop long-term relationships with our patrons and to target promotions to specific customer segments. Our Capital Club®, a slots players club and tracking system, allows us to identify customers and to reward their level of play through various marketing programs. Membership in this club currently stands at approximately 180,000 active patrons.

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

Gaming Enforcement, are intended to maintain the security, integrity and accountability of our gaming operations.

Dover Downs Hotel

Our luxury hotel facility, the Dover Downs Hotel and Conference Center, is the largest hotel in the State of Delaware and connects to our casino. The facility includes 500 rooms, including eleven luxury spa suites, a multi-purpose ballroom/concert hall, a fine dining restaurant, swimming pool and a luxurious 6,000 square-foot full-service spa. By offering a wide range of entertainment options to our patrons, including concerts featuring prominent entertainers, live boxing, gourmet dining, spa facilities, trade shows and conferences, we believe we are able to attract new patrons and lengthen the stay of current patrons. In 2011, hotel occupancy averaged 90% and the hotel was awarded the AAA Four Diamond Award for the ninth consecutive year.

Dover Downs Raceway

Dover Downs Raceway has presented pari-mutuel harness racing events for 43 consecutive years. Live harness races are conducted at Dover Downs Raceway from November until April and are simulcast to more than 300 tracks and other off-track betting locations across North America on each of our more than 120 live race dates. During our harness racing season, we have historically used the 5/8-mile harness racing track that is located on DVD's property and is on the inside of its one-mile motorsports superspeedway. In order to continue this historic use, DVD granted a perpetual easement to the harness track to us at the time of the spin-off. This perpetual easement allows us to have exclusive use of the harness track during the period beginning November 1 of each year and ending April 30 of the following year, together with set up and tear down rights for the two weeks before and after such period. The easement requires that we maintain the harness track but does not require the payment of any rent. Additional amenities include the Winners Circle® Restaurant overlooking the horse racing track.

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

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

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

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

We have an agreement with the Delaware Standardbred Owner's Association, Inc. (DSOA) effective September 1, 2010 and continuing through August 31, 2014. DSOA's membership consists of owners, trainers and drivers of harness horses participating in harness race meetings at our facilities and elsewhere in the United States and Canada. The DSOA has been organized and exists for the purpose of promoting the sport of harness racing; improving the lot of owners, drivers and trainers of harness racing horses participating in race meetings; establishing health, welfare and insurance programs for owners, drivers and trainers of harness racing horses; negotiating with harness racing tracks on behalf of owners, trainers, drivers and grooms of harness racing horses; and generally rendering assistance to them whenever and wherever possible. Under the DSOA agreement, we are required to distribute as purses for races conducted at our facilities a percentage of our retained share of pari-mutuel revenues.

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

Licensing and Regulation by Gaming and Other Authorities

General

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

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

Video Lottery, Sports Wagering and Table Game Operations

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

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

Licensing Requirements. We were granted a license on December 13, 1995. Delaware gaming licenses do not have an expiration date.

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

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

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

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

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

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

Control Over Equipment and Technology. We do not own or lease the slot machines or computer systems used by the State in connection with our video lottery gaming operations. The Lottery Director enters into contracts directly with the providers of the slot machines and computer systems and we are not a party to those negotiations. At our expense, the State purchases or leases all equipment and the Lottery Director licenses all technology providers. Our operations could be disrupted if a licensed technology provider violates its agreement with the State or ceases to be licensed for any reason. Such an event would be outside of our control and could adversely affect our gaming revenues.

Harness Racing and Pari-Mutuel Wagering

Licensing Requirements. Harness racing in the State of Delaware is governed by the Delaware Harness Racing Commission. We hold a license from the Commission by which we are authorized to hold harness race meetings on our premises and to make, conduct and sell pools by the use of pari-mutuel machines or totalizators. The license must be renewed on an annual basis. The Commission may reject an application for a license for any cause which it deems sufficient and the action of the Commission is final. The Commission may also suspend or revoke a license which it has issued and its action in that respect is final, subject to review, upon questions of law only, by the Superior Court of the County within which the license was granted. The action of the Commission stands unless and until reversed by the Court. We have received an annual license from the Commission for the past 43 consecutive years and management believes that our relationship with the Commission remains good. However, there can be no assurances that we will continue to be licensed by the Commission in the future.

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

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

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

Gaming Taxes and Fees

We believe that the prospect of significant additional tax revenue is one of the primary reasons why jurisdictions have legalized gaming. As a result, gaming operators are typically subject to significant taxes and fees in addition to normal federal and state corporate income taxes. These taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations and the State's share of our gaming win has been increased several times over the past few years. As some of these fees are fixed license fees payable without regard to the level of business we conduct, they may have a material adverse effect on our future financial results if we have a decline in revenues. In addition, any material increase in taxes or fees, or the adoption of additional taxes or fees, may have a material adverse effect on our future financial results.

Compliance with Other Laws

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

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

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

Laws and regulations are always subject to change, can be interpreted differently in the future, and new laws and regulations may be enacted which could adversely affect the tax, regulatory, operational or other aspects of the gaming industry and our company. Furthermore,

noncompliance with one or more of these laws and regulation could result in the imposition of substantial penalties against us.

Competition

The gaming industry in the United States is intensely competitive and features many participants, including riverboat casinos, dockside casinos, land-based casinos and racinos, slot and poker machines, whether or not located in casinos, native American gaming, pari-mutuel wagering on live and simulcast horse racing, off-track betting, state

run lotteries, internet gambling and other forms of gambling. Gaming competition is particularly intense in each of these sectors.

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

All states in our geographic region have state-run lotteries. Recent developments in federal law suggest that state run lotteries are no longer prohibited by federal law from offering lottery products or other gaming opportunities over the internet or through mobile applications if permitted by state law. Legislation has been proposed in Congress to regulate various forms of internet gaming at the federal level and a number of states and other jurisdictions (Nevada, Washington D.C., Illinois, Iowa, New York, New Jersey and Delaware among others) are pursuing or exploring the legalization of internet gaming in various forms from state run lotteries to privately run casino games, including online poker.

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

Additional gaming venues are expected to open in 2012 in Maryland, Pennsylvania and New Jersey. These new venues particularly a large casino at Arundel Mills in Maryland projected to open in June 2012 are expected to have a significant adverse effect on our visitation numbers, our employee headcount, our revenues and our profitability. Management has estimated that approximately 42% of our total gaming win comes from Maryland patrons and approximately 70% of our Capital Club® member gaming win comes from out of state patrons.

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

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

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

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

Competition for our hotel varies and consists of local and regional competition. With respect to hotel accommodations only, we compete with a variety of nearby hotels in the Dover area; however, none of these offer the luxury accommodations and amenities that we offer. Our hotel is the only hotel in the Dover area, and one of

only three hotels in the State, to receive the AAA Four Diamond Award. With respect to trade shows, conferences, concerts and hotel room packages tied to these events or tied to our casino and other gaming offerings, we compete at a regional level with the other gaming operations referred to above and with convention centers and larger hotels in major cities such as Philadelphia, Washington, D.C., Baltimore and Wilmington.

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

Mission and Strategy

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

We use a sophisticated database marketing program to enable us to develop long-term relationships with our patrons and to target promotions to specific customer segments. Our Capital Club, a players club and tracking system, allows us to identify customers and to reward their level of play through various marketing programs. Membership in this club currently stands at approximately 180,000 active patrons. We attempt to increase attendance at both our casino and hotel through effective promotional use of our database and by making improvements to our facilities and gaming offerings based on what we learn from our Capital Club members. For example, we continually add the most popular machines, have added live table games, as well as multi-player electronic table games and other amenities requested by our customers.

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

We entered into a letter of intent on October 14, 2008 (amended as of September 16, 2011) with UG Entertainment LLC (UGE) to provide management services for the operation of a video lottery facility at Underground Atlanta or elsewhere in Atlanta. Such video lottery operations are not presently authorized and would require regulatory action by the Georgia Lottery and likely the support of the Georgia legislature. The letter of intent between us and UGE provides for a five year management agreement and affords us two renewal options for two years each subject to the attainment of certain financial criteria by the new facility. The letter of intent contemplates that the parties will negotiate and enter into an acceptable management agreement with terms and conditions comparable to management agreements of a similar nature. Our compensation would consist of a management fee based on gross revenues and an incentive fee based on net earnings before taxes. The letter of intent also contemplates that we will have the right to purchase up to 10% of the equity of UGE. We intend to pursue similar management opportunities in other jurisdictions.

Seasonality

Our quarterly operating results are affected by weather and the general economic conditions in the United States. Our quarterly operating results are generally distributed evenly throughout the year. However, the results for any quarter are not necessarily indicative of results to be expected in any future period.

Employees

As of December 31, 2011, we had 987 full-time employees and 359 part-time employees. We engage temporary personnel to assist during our live harness racing season. None of our employees are party to a collective bargaining agreement and we believe that our relationship with our employees is good.

Available Information

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

Internet Address

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

Item 1A. Risk Factors

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

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

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

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

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

We compete in local and regional markets with horse tracks and racinos, off-track betting parlors, state run lotteries, casinos, internet gambling and other forms of gaming. In a broader sense, our gaming operations face

competition from all manner of leisure and entertainment activities, including shopping, collegiate and professional athletic events, television and movies, concerts and travel. Most of our gaming competitors are in jurisdictions with a lower tax burden. As gambling opportunities in the region continue to proliferate, there can be no assurance that we will maintain our state or regional market share or be able to compete effectively with our competitors and this could adversely affect our business, financial condition and overall profitability.

All states in our geographic region have state-run lotteries. Recent developments in federal law suggest that state run lotteries are no longer prohibited by federal law from offering lottery products or other gaming opportunities over the internet or through mobile applications if permitted by state law. Legislation has been proposed in Congress to regulate various forms of internet gaming at the federal level and a number of states and other jurisdictions (Nevada, Washington D.C., Illinois, Iowa, New York, New Jersey and Delaware among others) are pursuing or exploring the legalization of internet gaming in various forms from state run lotteries to privately run casino games, including online poker.

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

Additional gaming venues are expected to open in 2012 in Maryland, Pennsylvania and New Jersey. These new venues particularly a large casino at Arundel Mills in Maryland projected to open in June 2012 are expected to have a significant adverse effect on our visitation numbers, our employee headcount, our revenues and our profitability. Management has estimated that approximately 42% of our total gaming win comes from Maryland patrons and approximately 70% of our Capital Club® member gaming win comes from out of state patrons.

All Of Our Facilities Are In One Location

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

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

Licensing, administration and control of gaming operations in Delaware is under the Delaware State Lottery Office and Delaware's Department of Safety and Homeland Security, Division of Gaming Enforcement. Our gaming license must be renewed on an annual basis. To keep our gaming license, we must remain licensed for harness horse racing by the Delaware Harness Racing Commission and conduct at least 80 live race days each racing season, subject to the availability of harness race horses. The Commission has broad discretion to reject any application for a license or suspend or revoke a license once it is issued. The Director of the Delaware State Lottery Office (the Lottery Director) has broad discretion to revoke, suspend or modify the terms of our license. Any modification or termination of existing licensing regulations or any revocation, suspension or modification of our licenses could adversely affect our business, financial condition and overall profitability.

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

Slot machine gaming, sports betting, table games, harness horse racing and pari-mutuel wagering are subject to extensive government regulation. Delaware law regulates the win we are entitled to retain and the percentage of commission we are entitled to receive from our gaming revenues, which comprises a significant portion of our overall revenues. The State granted us a license to conduct our gaming operations and a license to conduct harness

horse races and pari-mutuel wagering. The laws under which these licenses are granted could be modified or repealed at any time and we could be required to terminate our gaming operations. If we are required to terminate our gaming operations or if the amount of the commission we receive from the State for conducting our gaming operations is decreased, our business operations and overall profitability would be significantly impaired.

We believe that the prospect of significant additional tax revenue is one of the primary reasons why jurisdictions have legalized gaming. As a result, gaming operators are typically subject to significant taxes and fees in addition to normal federal and state corporate income taxes. These taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations and the State's share of our gaming win has been increased several times over the past few years. As some of these fees are fixed license fees payable without regard to the level of business we conduct, they may have a material adverse effect on our future financial results if we have a decline in revenues. In addition, any material increase in taxes or fees, or the adoption of additional taxes or fees, may have a material adverse effect on our future financial results.

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

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

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

We Have a Significant Amount of Indebtedness

As of December 31, 2011, we had total outstanding long-term debt of \$69,000,000 under our credit facility. This indebtedness and any future increases in our outstanding borrowings or decreases in our operating profits could:

- make it more difficult for us to satisfy our debt obligations;
- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- increase our costs or create difficulties in refinancing or replacing our outstanding obligations;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, dividends and other general corporate purposes;

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- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- subject us to the risks that interest rates and our interest expense will increase; and
- place us at a competitive disadvantage compared to competitors that have less debt.

In addition, our credit facility contains financial ratios that we are required to meet and other restrictive covenants that, among other things, limit or restrict our ability to borrow additional funds, make acquisitions, create liens on our properties and make investments. Our ability to meet these financial ratios and covenants can be affected by events beyond our control, and there can be no assurance that we will meet them. If there were an event of default under our credit facility, the lenders could elect to declare all amounts outstanding to be immediately due and payable.

If the new casino at Arundel Mills in Maryland projected to open in June 2012 has a larger adverse impact on our operations than anticipated, our ability to comply with our debt covenants over the next twelve months could be impacted.

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

We do not own or lease the slot machines or computer systems used by the State in connection with our video lottery gaming operations. The Lottery Director enters into contracts directly with the providers of the slot machines and computer systems and we are not a party to those negotiations. At our expense, the State purchases or leases all equipment and the Lottery Director licenses all technology providers. Our operations could be disrupted if a licensed technology provider violates its agreement with the State or ceases to be licensed for any reason. Such an event would be outside of our control and could adversely affect our gaming revenues.

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

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

Our Success Depends on the Availability and Performance of Key Personnel

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

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

Item 1B. **Unresolved Staff Comments**

We have not received any written comments that were issued within 180 days before December 31, 2011, the end of the fiscal year covered by this report, from the SEC staff regarding our periodic or current reports under the Securities Exchange Act of 1934 that remain unresolved.

Item 2.

Properties

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

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

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

Intellectual Property

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers Of The Registrant

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

Part II

Item 5.
Securities

Market For Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity

Our common stock is listed on the New York Stock Exchange under the ticker symbol DDE. Our Class A common stock is not publicly traded but is freely convertible on a one-for-one basis into common stock at any time at the option of the holder thereof. As of February 24, 2012, there were 15,895,348 shares of common stock and 16,603,173 shares of Class A common stock outstanding. There were 841 holders of record for common stock and 22 holders of record for Class A common stock.

The high and low sales prices for our common stock on the New York Stock Exchange and the dividends declared per share for the years ended December 31, 2011 and 2010 are detailed in the following table.

Quarter Ended:	High		Low		Dividends Declared
December 31, 2011	\$	2.50	\$	2.01	\$ 0.03
September 30, 2011	\$	3.47	\$	2.15	\$ 0.03
June 30, 2011	\$	3.69	\$	3.14	\$ 0.03
March 31, 2011	\$	4.00	\$	3.37	\$ 0.03
December 31, 2010	\$	3.60	\$	3.33	\$ 0.03
September 30, 2010	\$	3.59	\$	2.80	\$ 0.03
June 30, 2010	\$	4.46	\$	2.73	\$ 0.03
March 31, 2010	\$	4.06	\$	3.41	\$ 0.03

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No repurchases were made in the fourth quarter of 2011 and we had remaining purchase authority of 1,653,333 shares.

Item 6. Selected Financial Data

Not applicable.

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

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

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

- Dover Downs Casino a 165,000-square foot casino complex featuring popular table games, including craps, roulette and card games such as blackjack, Spanish 21, baccarat, 3-card and pai gow poker, the latest in slot machine offerings, multi-player electronic table games, the Crown Royal poker room, a Race & Sports Book operation, the Dover Downs Fire & Ice Lounge, the Festival Buffet, Doc Magrogan's Oyster House, Frankie's Italian restaurant, as well as several bars, restaurants and four retail outlets;

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- Dover Downs Hotel and Conference Center a 500 room AAA Four Diamond hotel with a full-service spa/salon, conference, banquet, ballroom and concert hall facilities; and
- Dover Downs Raceway a harness racing track with pari-mutuel wagering on live and simulcast horse races.

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

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

- Proximity to major population bases,
- Competition in the market,
- The quantity and types of slot machines and table games available,
- The quality of the physical property,
- Other amenities offered on site,

- Customer service levels,
- Marketing programs, and
- General economic conditions.

We believe that we hold a strong position in each of these areas. Our entertainment complex is located in Dover, the capital of the State of Delaware. We draw patrons from several major metropolitan areas. Philadelphia, Baltimore and Washington, D.C. are all within a two hour drive. According to the 2010 United States Census, approximately 36.8 million people live within 150 miles of our complex. There are significant barriers to entry related to the gaming business in Delaware. By law, currently only the three existing horse racing facilities in the State are allowed to have a gaming license. Our property is similar to properties found in the country's largest gaming markets. Our luxury hotel is the only casino-hotel in Delaware, providing a strong marketing tool, especially to higher-end players. We also utilize our slot marketing system to allow for more efficient marketing programs and the highest levels of customer service. Our facility offers the most conference space of any hotel in Delaware.

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

Results of Operations

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

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

Year Ended December 31, 2011 vs. Year Ended December 31, 2010

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Gaming revenues increased slightly to \$217,415,000 in 2011 from \$217,267,000 in 2010 as a result of higher revenue from having a full year of table game operations. Our table game operations began on June 25, 2010 with 40 tables including blackjack, poker, craps and roulette. In July 2010, we added 12 poker tables. Largely offsetting this increase was lower win from slot machine play in our casino. Continuing challenging economic conditions and the related impact on consumer spending and increased competition contributed to the lower slot win. Additionally, Hurricane Irene forced the closure of our facility for almost an entire weekend in August contributing to the decline. Our average number of slot machines was 2,612 in 2011 as compared to 2,824 in 2010. The lower number of slot machines resulted from the removal of machines to make room for our table game operations.

Other operating revenues were \$22,527,000 in 2011 as compared to \$20,882,000 in 2010. Rooms revenue increased \$393,000 in 2011 mainly due to an increase in convention and tour and travel sales and cash sales from our casino customers. Food and beverage revenues increased \$909,000 to \$14,583,000 from \$13,674,000 in 2010 due

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primarily to higher banquet sales, increased beverage sales in many of our outlets and higher revenues in our Race & Sports book and Michele's fine dining restaurant. Additionally, we opened a new temporary outlet during Dover International Speedway's (a company related through common ownership) two race event weekends that provided a new source of food & beverage revenues. Higher ticket sales for our live concert and boxing events and the promotion of two additional events in 2011 also contributed to the increase. Other operating revenues do not include the retail amount of promotional allowances which are provided to customers on a complimentary basis of \$20,375,000 and \$18,306,000 in 2011 and 2010, respectively.

Gaming expenses increased by \$5,099,000, or 2.7%, primarily as a result of having a full year of our table game operations and higher marketing costs. Partially offsetting these increases were the lower gaming taxes, vendor fees and harness horse racing purses that result from lower slot machine gaming revenues.

Other operating expenses increased by \$383,000, or 2.4%, due to the higher revenues. This increase was partially offset by efforts to control costs in our rooms and food and beverage departments.

General and administrative expenses were \$6,288,000 in 2011 as compared to \$6,922,000 in 2010. The decrease was primarily due to lower employee benefit costs during 2011, primarily from freezing our pension plan, and the expensing of costs related to our terminated merger agreement with Dover Motorsports, Inc during 2010.

Depreciation expense decreased to \$11,665,000 in 2011 as compared to \$12,059,000 in 2010 primarily as a result of certain assets becoming fully depreciated partially offset by depreciation related to asset additions associated with our table game operations.

Interest expense decreased by \$382,000 due to lower outstanding borrowings during 2011 and lower interest rates during the second half of 2011 as a result of entering into a new credit facility during the year.

Our effective income tax rate remained consistent at 41.6% in 2011 as compared to 41.3% in 2010.

Year Ended December 31, 2010 vs. Year Ended December 31, 2009

Gaming revenues increased by \$3,412,000, or 1.6%, to \$217,267,000 in 2010 as a result of beginning table game operations on June 25, 2010 with 40 tables including blackjack, poker, craps and roulette. In July 2010, we opened 12 poker tables. Partially offsetting the increase in table gaming revenues was a decrease in slot machine play in our casino which was significantly impacted by record snow fall in the region during the first quarter and continuing challenging economic conditions and the related impact on consumer spending. Our average number of slot machines was 2,824 in 2010 as compared to 3,036 in 2009. The lower number of slot machines resulted from the removal of machines to make room for our new table game operations.

Other operating revenues were \$20,882,000 in 2010 as compared to \$18,944,000 in 2009. Rooms revenue increased \$559,000 in 2010 mainly due to an increase in convention and transient sales and cash sales from our casino customers. Food and beverage revenues increased

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\$1,532,000 to \$13,674,000 from \$12,142,000 in 2009 due primarily to higher banquet sales and the opening of our Race & Sports Book restaurant and Frankie's Italian restaurant in September 2009. Partially offsetting these increases was a decrease in our cash services revenue. Other operating revenues do not include the retail amount of promotional allowances which are provided to customers on a complimentary basis of \$18,306,000 and \$18,255,000 in 2010 and 2009, respectively.

Gaming expenses increased by \$12,508,000, or 7.1%, primarily as a result of the opening of our table game operations and significantly higher slot gaming taxes that resulted from legislation passed in May of 2009. The impact of this legislative initiative resulted in an increase in our slot gaming taxes of approximately \$5,600,000 in 2010. Partially offsetting these increases were lower gaming taxes, computer system fees and harness horse racing purses due to the lower slot machine gaming revenues.

Other operating expenses increased by \$1,369,000, or 9.3%, due to the higher revenues.

General and administrative expenses increased in 2010 to \$6,922,000 from \$6,678,000 in 2009. The increase was primarily due to the expensing of costs relating to a proposed merger with Dover Motorsports, Inc. (a company related through common ownership). The merger agreement was terminated in October 2010.

Depreciation expense remained consistent at \$12,059,000 in 2010 as compared to \$11,939,000 in 2009.

Interest expense increased by \$878,000 due to a higher average interest rate on our amended credit facility.

Our effective income tax rate was 41.3% in 2010 as compared to 40.9% in 2009. The increase was the result of the non-deductible portion of the restricted stock awards that vested during 2010.

Liquidity and Capital Resources

Net cash provided by operating activities was \$15,651,000 in 2011 compared to \$23,494,000 in 2010. The decrease was primarily due to the payment of two years of new state gaming license fees on our table game operations in 2011, which related to the 12 months ended June 30, 2011 and the 12 months ended June 30, 2012, and the lower net earnings.

Net cash used in investing activities was \$1,930,000 in 2011 compared to \$5,578,000 in 2010 and was primarily related to capital improvements. Capital expenditures in 2011 related primarily to upgrading our computer systems, replacing our casino carpet and other facility improvements. Capital expenditures in 2010 related primarily to our table game operations.

Net cash used in financing activities was \$13,906,000 in 2011 compared to \$20,512,000 in 2010. During 2011, we repaid \$9,600,000 of our credit facility compared to \$16,525,000 during 2010. We paid \$3,888,000 and \$3,870,000 in cash dividends during 2011 and 2010, respectively. We repurchased and retired \$150,000 of our outstanding common stock during 2011 compared to \$117,000 during 2010. On June 17, 2011, we entered into a new credit agreement and paid \$268,000 in closing costs.

On January 25, 2012, our Board of Directors declared a quarterly cash dividend on both classes of common stock of \$0.03 per share. The dividend is payable on March 10, 2012 to shareholders of record at the close of business on February 10, 2012.

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during 2011 or 2010. At December 31, 2011, we had remaining repurchase authority of 1,653,333 shares.

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Based on current business conditions, we expect to make capital expenditures of approximately \$2,000,000 during 2012. Additionally, we expect to contribute approximately \$1,000,000 to our pension plans in 2012.

At December 31, 2011, we had a \$90,000,000 credit agreement with a bank group. The maximum borrowing limit under the facility reduces to \$85,000,000 as of March 31, 2012, \$80,000,000 as of March 31, 2013 and \$75,000,000 as of March 31, 2014 and the facility expires June 17, 2014. Interest is based upon LIBOR plus a margin that varies between 150 and 225 basis points (225 basis points at December 31, 2011) depending on the ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the leverage ratio). The credit facility contains certain covenants including minimum interest coverage, maximum funded debt to earnings before interest, taxes, depreciation and amortization and minimum tangible net worth. Material adverse changes in our results of operations could impact our ability to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause. The credit facility provides for seasonal funding needs, capital improvements and other general corporate purposes. At December 31, 2011, we were in compliance with all terms of the facility and there was \$69,000,000 outstanding at a weighted average interest rate of 2.54%. At December 31, 2011, \$21,000,000 was available pursuant to the facility; however, in order to maintain compliance with the required quarterly debt covenant calculations as of December 31, 2011 \$5,139,000 could have been borrowed as of that date.

Effective January 15, 2009, we entered into an interest rate swap agreement that effectively converts \$35,000,000 of our variable-rate debt to a fixed-rate basis, thereby hedging against the impact of potential interest rate changes on future interest expense. The agreement terminates on April 17, 2012. Pursuant to this agreement, we pay a fixed interest rate of 1.74%, plus a margin that varies between 150 and 225 basis points depending on our leverage ratio (225 basis points at December 31, 2011). In return, the issuing lender refunds to us the variable-rate interest paid to the bank group under our revolving credit agreement on the same notional principal amount, excluding the margin. At December 31, 2011, the interest rate on our interest rate swap was 3.99%.

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 and capital spending requirements at least through the next twelve months, as well as any cash dividends our Board of Directors may declare. We expect cash flows from operating activities and funds available from our credit facility to also provide for long-term liquidity.

The introduction or expansion of gaming in and around our market area could have a material adverse effect on our cash flows and results of operations. See Part I, Item 1 Business included elsewhere in this document for further discussion of casinos scheduled to open in 2012 that could adversely impact our operations.

Contractual Obligations

At December 31, 2011, we had the following contractual obligations:

	Total	2012	Payments Due by Period				Thereafter
			2013	2014	2015	2016	
Revolving line of credit(a)	\$ 69,000,000	\$	\$ 69,000,000	\$	\$	\$	\$
Estimated interest payments on revolving line of credit(b)	4,465,000	1,904,000		2,561,000			
Pension contributions(c)	1,000,000	1,000,000					
	\$ 74,465,000	\$ 2,904,000	\$ 71,561,000	\$	\$		\$

(a) Our current credit facility expires on June 17, 2014.

(b) The future interest payments on our revolving credit agreement were estimated using the current outstanding principal as of December 31, 2011 and interest rates under the new credit agreement dated June 17, 2011. For \$35,000,000 of our outstanding borrowings, we used the fixed interest rate per the interest rate swap agreement through the termination date of the swap agreement.

(c) Effective July 31, 2011, we froze our pension plans which will result in reduced contributions after 2011.

Related Party Transactions

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

Critical Accounting Policies

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

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided for financial reporting purposes using the straight-line method over estimated useful lives ranging from 3 to 10 years for furniture, fixtures and equipment and up to 40 years for facilities. These estimates require assumptions that are believed to be reasonable. We perform reviews for impairment of long-lived assets whenever events or changes in circumstances indicate that the

carrying value of an asset may not be recoverable. An impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its fair value. Generally, fair value will be determined using valuation techniques such as the present value of future cash flows.

Accrued Pension Cost

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

Recent Accounting Pronouncements

See NOTE 2 Summary of Significant Accounting Policies to our consolidated financial statements included elsewhere in this document for a description of recent accounting pronouncements including the expected dates of adoption and effects on results of operations, financial condition and cash flows.

Factors That May Affect Operating Results; Forward-Looking Statements

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

Item 7A. Quantitative And Qualitative Disclosure About Market Risk

Not applicable.

Item 8. Financial Statements And Supplementary Data

Our consolidated financial statements and the Report of Independent Registered Public Accounting Firm included in this report are shown on the Index to Consolidated Financial Statements on page 28.

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

None.

Item 9A. **Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures

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

Based on their evaluation as of December 31, 2011, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2011 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2011. KPMG LLP independently assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. KPMG LLP has issued their report which is included herein.

(d) Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Dover Downs Gaming & Entertainment, Inc.:

We have audited Dover Downs Gaming & Entertainment, Inc.'s (the Company's) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting (Item 9A(c))*. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Dover Downs Gaming & Entertainment, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Dover Downs Gaming & Entertainment, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of earnings and comprehensive earnings and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated March 9, 2012 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Philadelphia, Pennsylvania

March 9, 2012

Item 9B. **Other Information**

None.

Part III

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

Except as presented below, biographical information relating to our directors and executive officers, information regarding our audit committee financial experts and information on Section 16(a) Beneficial Ownership Reporting Compliance called for by this Item 10 are incorporated by reference to our Proxy Statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on April 25, 2012.

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

Executive Officers of the Registrant. As of December 31, 2011, our executive officers were:

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Name	Position	Age	Term of Office
Denis McGlynn	President and Chief Executive Officer	65	11/79 to date
Edward J. Sutor	Executive Vice President and Chief Operating Officer	61	3/99 to date
Timothy R. Horne	Sr. Vice President-Finance, Treasurer and Chief Financial Officer	45	11/96 to date
Klaus M. Belohoubek	Sr. Vice President-General Counsel and Secretary	52	7/99 to date

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

Denis McGlynn has served as our President and Chief Executive Officer for 32 years. Mr. McGlynn also serves as President and Chief Executive Officer to DVD.

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

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

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

Item 11. **Executive Compensation**

The information called for by this Item 11 is incorporated by reference to our Proxy Statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on April 25, 2012.

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

The information called for by this Item 12 is incorporated by reference to our Proxy Statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on April 25, 2012.

Equity Compensation Plan Information

We have a stock incentive plan which provides for the grant of up to 2,250,000 shares of common stock to our officers and key employees through stock options and/or awards valued in whole or in part by reference to our common stock, such as restricted stock awards. Refer to NOTE 9 Stockholders Equity to our consolidated financial statements included elsewhere in this document for further discussion. Securities authorized for issuance under equity compensation plans at December 31, 2011 are as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders		\$	948,787
Equity compensation plans not approved by security holders			
Total		\$	948,787

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

The information called for by this Item 13 is incorporated by reference to our Proxy Statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on April 25, 2012.

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

The information called for by this Item 14 is incorporated by reference to our Proxy Statement to be filed pursuant to Regulation 14A for the Annual Meeting of Stockholders to be held on April 25, 2012.

Part IV

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

- (a)(1) Financial Statements See accompanying Index to Consolidated Financial Statements on page 28.
- (2) Financial Statement Schedules None.
- (3) Exhibits:
- 2.1 Amended and Restated Agreement Regarding Distribution and Plan of Reorganization, dated as of February 15, 2002, by and between Dover Motorsports, Inc. (formerly known as Dover Downs Entertainment, Inc.) and Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 2.1 to the Form 10 filed on February 26, 2002, which was declared effective on March 7, 2002).
- 3.1 Certificate of Incorporation of Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 3.1 to the Form 10 filed on November 21, 2001, which was declared effective on March 7, 2002).
- 3.2 Amended and Restated By-laws of Dover Downs Gaming & Entertainment, Inc. dated March 1, 2002 (incorporated herein by reference to Exhibit 3.2 to the Form 10 filed on March 7, 2002).
- 4.1 Form of Common Stock Certificate of Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 4.1 to the Form 10 filed on November 21, 2001, which was declared effective on March 7, 2002).
- 4.2 Rights Agreement dated as of January 1, 2012 between Dover Downs Gaming & Entertainment, Inc. and Mellon Investor Services, as Rights Agent (incorporated herein by reference to Exhibit 4.1 to the Form 8-A filed on December 30, 2011).
- 10.1 Employee Benefits Agreement, dated as of January 15, 2002, by and between Dover Motorsports, Inc. (formerly known as Dover Downs Entertainment, Inc.) and Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 10.2 to the Form 10 filed on January 16, 2002, which was declared effective on March 7, 2002).
- 10.2 Transition Support Services Agreement, dated as of January 15, 2002, by and between Dover Motorsports, Inc. (formerly known as Dover Downs Entertainment, Inc.) and Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 10.3 to the Form 10 filed on January 16, 2002, which was declared effective on March 7, 2002).
- 10.3 Tax Sharing Agreement, dated as of January 15, 2002, by and between Dover Motorsports, Inc. (formerly known as Dover Downs Entertainment, Inc.) and Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 10.4 to the Form 10 filed on January 16, 2002, which was declared effective on March 7, 2002).
- 10.4 Real Property Agreement dated as of January 15, 2002, by and between Dover Motorsports, Inc. (formerly known as Dover Downs Entertainment, Inc.) and Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit 10.5 to the Form 10 filed on January 16, 2002, which was declared effective on March 7, 2002).

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- 10.5 Agreement between Dover Downs, Inc. and Delaware Standardbred Owners Association, Inc. dated September 1, 2010 (incorporated herein by reference to Exhibit 10.1 to the Form 10-Q filed on November 5, 2010).
- 10.6 Credit Agreement between Dover Downs Gaming and Entertainment, Inc. and RBS Citizens, N.A., as agent, dated as of June 17, 2011 (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on June 23, 2011).
- 10.7 Amended and Restated Employment and Non-Compete Agreement between Dover Downs Gaming & Entertainment, Inc. and Denis McGlynn dated February 13, 2006 (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on February 17, 2006).
- 10.8 Amended and Restated Employment and Non-Compete Agreement between Dover Downs Gaming & Entertainment, Inc. and Edward J. Sutor dated February 13, 2006 (incorporated herein by reference to Exhibit 10.2 to the Form 8-K filed on February 17, 2006).
- 10.9 Amended and Restated Employment and Non-Compete Agreement between Dover Downs Gaming & Entertainment, Inc. and Timothy R. Horne dated February 13, 2006 (incorporated herein by reference to Exhibit 10.3 to the Form 8-K filed on February 17, 2006).
- 10.10 Amended and Restated Employment and Non-Compete Agreement between Dover Downs Gaming & Entertainment, Inc. and Klaus M. Belohoubek dated February 13, 2006 (incorporated herein by reference to Exhibit 10.4 to the Form 8-K filed on February 17, 2006).
- 10.11 Amendment to certain agreements between Dover Downs Gaming & Entertainment, Inc. and selected executives and directors (incorporated herein by reference to Exhibit 10.1 to the Form 10-Q filed on November 3, 2008).
- 10.12 Amendment to certain agreements between Dover Downs Gaming & Entertainment, Inc. and certain executives dated June 15, 2011 (incorporated herein by reference to Exhibit 2.1 to the Form 8-K dated June 15, 2011).
- 10.13 Non-Compete Agreement between Dover Downs Gaming & Entertainment, Inc. and Henry B. Tippie dated June 16, 2004 (incorporated herein by reference to Exhibit 10.7 to the Form 10-Q filed on August 6, 2004).
- 10.14 Dover Downs Gaming & Entertainment, Inc. 2002 Stock Incentive Plan, as Amended and Restated (incorporated herein by reference to Exhibit A to our Proxy Statement filed on March 29, 2004).
- 10.15 Form of Incentive Stock Option Agreement Used with Dover Downs Gaming & Entertainment, Inc. 2002 Stock Incentive Plan, as Amended and Restated (incorporated herein by reference to Exhibit 10.1 to the Form 10-Q filed on November 3, 2004).
- 10.16 Form of Restricted Stock Grant Agreement Used with Dover Downs Gaming & Entertainment, Inc. 2002 Stock Incentive Plan, as Amended and Restated (incorporated herein by reference to Exhibit 10.2 to the Form 10-Q filed on November 3, 2004).
- 10.17 Description of Annual Salary and Certain Discretionary Incentives to Executive Officers (incorporated herein by reference to the Form 8-K dated January 3, 2012).
- 10.18 Letter of Intent dated October 14, 2008 between Dover Downs Gaming Management Corp. and UG Entertainment, LLC (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on January 14, 2009).
- 10.19 Amendment No. 3 to the Letter of Intent dated September 16, 2011 between Dover Downs Gaming Management Corp. and UG Entertainment, LLC (incorporated herein by reference to Exhibit 10.1 to the Form 10-Q filed on November 9, 2011).

- 21.1 List of Subsidiaries of Dover Downs Gaming & Entertainment, Inc.
- 24.1 Powers of Attorney for Directors
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Information Statement dated as of March 7, 2002 (incorporated herein by reference to Exhibit 99.1 to the Form 10 filed on March 7, 2002).
- 99.2 Audit Committee Charter of Dover Downs Gaming & Entertainment, Inc. (incorporated herein by reference to Exhibit B to our Proxy Statement filed on March 30, 2010).

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: March 9, 2012

Dover Downs Gaming & Entertainment, Inc.
Registrant

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

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

/s/ Denis McGlynn Denis McGlynn	<i>President and Chief Executive Officer and Director (Principal Executive Officer)</i>	March 9, 2012
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/s/ Timothy R. Horne Timothy R. Horne	<i>Sr. Vice President Finance, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)</i>	March 9, 2012
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The Directors of the registrant (listed below) executed a power of attorney appointing Denis McGlynn and Timothy R. Horne their attorneys-in-fact, empowering either of them to sign this report, or any amendments, on their behalf.

/s/ Henry B. Tippie Henry B. Tippie	<i>Chairman of the Board</i>	March 9, 2012
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/s/ Kenneth K. Chalmers Kenneth K. Chalmers	<i>Director and Chairman of the Audit Committee</i>	March 9, 2012
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/s/ Patrick J. Bagley Patrick J. Bagley	<i>Director</i>	March 9, 2012
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/s/ Jeffrey W. Rollins Jeffrey W. Rollins	<i>Director</i>	March 9, 2012
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/s/ John W. Rollins, Jr. John W. Rollins, Jr.	<i>Director</i>	March 9, 2012
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/s/ R. Randall Rollins R. Randall Rollins	<i>Director</i>	March 9, 2012
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/s/ Richard K. Struthers Richard K. Struthers	<i>Director</i>	March 9, 2012
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/s/ Denis McGlynn
Denis McGlynn

*As Attorney-in-Fact
and Director*

March 9, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Dover Downs Gaming & Entertainment, Inc.:

We have audited the accompanying consolidated balance sheets of Dover Downs Gaming & Entertainment, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of earnings and comprehensive earnings and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dover Downs Gaming & Entertainment, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Dover Downs Gaming & Entertainment, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Philadelphia, Pennsylvania

March 9, 2012

DOVER DOWNS GAMING & ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

(in thousands, except per share data)

	Years ended December 31,		
	2011	2010	2009
Revenues:			
Gaming	\$ 217,415	\$ 217,267	\$ 213,855
Other operating	22,527	20,882	18,944
	239,942	238,149	232,799
Expenses:			
Gaming	193,392	188,293	175,785
Other operating	16,510	16,127	14,758
General and administrative	6,288	6,922	6,678
Impairment charge			2,177
Depreciation	11,665	12,059	11,939
	227,855	223,401	211,337
Operating earnings	12,087	14,748	21,462
Loss on extinguishment of debt	45		
Interest expense	2,872	3,254	2,376
Earnings before income taxes	9,170	11,494	19,086
Income taxes	3,811	4,751	7,809
Net earnings	5,359	6,743	11,277
Unrealized gain (loss) on interest rate swap, net of income taxes	272	(245)	(110)
Unrealized (loss) gain on available-for-sale securities, net of income taxes	(5)	3	10
Reclassification adjustment for loss realized on available-for-sale securities, net of income taxes			16
Change in pension net actuarial loss and prior service cost, net of income taxes	(925)	(194)	1,186
Comprehensive earnings	\$ 4,701	\$ 6,307	\$ 12,379
Net earnings per common share (Note 2):			
Basic	\$ 0.17	\$ 0.21	\$ 0.35
Diluted	\$ 0.17	\$ 0.21	\$ 0.35

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

DOVER DOWNS GAMING & ENTERTAINMENT, INC.**CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

	December 31,	
	2011	2010
ASSETS		
Current assets:		
Cash	\$ 18,634	\$ 18,819
Accounts receivable	3,982	3,098
Due from State of Delaware	9,440	9,829
Inventories	1,860	1,989
Prepaid expenses and other	3,659	2,551
Receivable from Dover Motorsports, Inc.		18
Income taxes receivable		617
Deferred income taxes	1,317	1,349
Total current assets	38,892	38,270
Property and equipment, net	176,415	186,227
Other assets	877	789
Total assets	\$ 216,184	\$ 225,286
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 4,035	\$ 3,742
Purses due horsemen	9,004	9,829
Accrued liabilities	11,912	12,286
Payable to Dover Motorsports, Inc.	11	
Income taxes payable	444	
Deferred revenue	254	307
Total current liabilities	25,660	26,164
Revolving line of credit	69,000	78,600
Liability for pension benefits	5,570	4,949
Other liabilities	147	598
Deferred income taxes	3,301	4,224
Total liabilities	103,678	114,535
Commitments and contingencies (see Notes to the Consolidated Financial Statements)		
Stockholders equity:		
Preferred stock, \$.10 par value; 1,000,000 shares authorized; shares issued and outstanding: none		
Common stock, \$.10 par value; 74,000,000 shares authorized; shares issued and outstanding: 15,763,338 and 15,637,022, respectively	1,576	1,564
Class A common stock, \$.10 par value; 50,000,000 shares authorized; shares issued and outstanding: 16,603,173 and 16,603,173, respectively	1,660	1,660
Additional paid-in capital	3,464	2,721
Retained earnings	108,090	106,432
Accumulated other comprehensive loss	(2,284)	(1,626)
Total stockholders equity	112,506	110,751
Total liabilities and stockholders equity	\$ 216,184	\$ 225,286

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

DOVER DOWNS GAMING & ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years ended December 31,		
	2011	2010	2009
Operating activities:			
Net earnings	\$ 5,359	\$ 6,743	\$ 11,277
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	11,665	12,059	11,939
Amortization of credit facility origination fees	90	72	39
Stock-based compensation	905	1,192	952
Deferred income taxes	(389)	(85)	187
Loss on extinguishment of debt	45		
Impairment charge			2,177
Changes in assets and liabilities:			
Accounts receivable	(884)	(462)	25
Due from State of Delaware	389	1,240	(199)
Inventories	129	(168)	(145)
Prepaid expenses and other	(995)	(392)	42
Accounts payable	604	664	(184)
Purses due horsemen	(825)	(390)	33
Accrued liabilities	(374)	3,498	1,369
Payable to/receivable from Dover Motorsports, Inc.	29	(13)	(16)
Income taxes payable/receivable	869	(187)	(653)
Deferred revenue	(53)	1	94
Other liabilities	(913)	(278)	800
Net cash provided by operating activities	15,651	23,494	27,737
Investing activities:			
Capital expenditures	(1,853)	(5,576)	(4,535)
Proceeds from the sale of available-for-sale securities	214	65	102
Purchase of available-for-sale securities	(291)	(67)	(104)
Net cash used in investing activities	(1,930)	(5,578)	(4,537)
Financing activities:			
Borrowings from revolving line of credit	180,683	116,300	157,875
Repayments of revolving line of credit	(190,283)	(132,825)	(171,075)
Dividends paid	(3,888)	(3,870)	(6,415)
Repurchase of common stock	(150)	(117)	(59)
Credit facility fees	(268)		
Net cash used in financing activities	(13,906)	(20,512)	(19,674)
Net (decrease) increase in cash	(185)	(2,596)	3,526
Cash, beginning of year	18,819	21,415	17,889
Cash, end of year	\$ 18,634	\$ 18,819	\$ 21,415
Supplemental information:			
Interest paid	\$ 2,847	\$ 3,121	\$ 2,801
Income taxes paid	\$ 3,331	\$ 5,024	\$ 8,275
Change in accounts payable for capital expenditures	\$	\$	\$ (1,581)

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

DOVER DOWNS GAMING & ENTERTAINMENT, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Business Operations

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

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

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

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

During the third quarter of 2009, we opened our Race & Sports Book operation and Frankie's Italian restaurant. The Race & Sports Book features parlay sports wagering on National Football League (NFL) games and pari-mutuel wagering on live and simulcast horse races. In January 2010, the Delaware legislature authorized table games at the facilities of the State's three video lottery agents. In June 2010, we opened our table game operations with a full complement of table games. The Crown Royal poker room opened in July 2010.

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

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

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

Our license from the Delaware Harness Racing Commission to hold harness race meetings on our premises and to offer pari-mutuel wagering on live and simulcast horse races must be renewed on an annual basis. In order to maintain our gaming license, we are required to maintain our harness horse racing license. We have received an

annual license from the Harness Racing Commission for the past 43 consecutive years and management believes that our relationship with the Commission remains good.

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

Additional gaming venues are expected to open in 2012 in Maryland, Pennsylvania and New Jersey. These new venues particularly a large casino at Arundel Mills in Maryland projected to open in June 2012 are expected to have a significant adverse effect on our visitation numbers, our employee headcount, our revenues and our profitability. Management has estimated that approximately 42% of our total gaming win comes from Maryland patrons and approximately 70% of our Capital Club® member gaming win comes from out of state patrons.

NOTE 2 Summary of Significant Accounting Policies

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

Investments Investments, which consist of mutual funds, are classified as available-for-sale and reported at fair-value in other assets in our consolidated balance sheets. Changes in fair value are reported in other comprehensive income (loss). See NOTE 9 Stockholders' Equity and NOTE 10 Financial Instruments for further discussion.

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

Inventories Inventories are stated at the lower of cost or market with cost being determined on the first-in, first-out basis.

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

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

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

Income taxes Deferred income taxes are provided on all differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements based upon enacted statutory tax rates in effect at the balance sheet date. Tax years after 2007 remain open to examination for federal and state income tax purposes.

Point loyalty program We currently have a point loyalty program for our customers which allows them to earn points based on the volume of their gaming activity. All reward points earned by customers are expensed in the period they are earned. The estimated amount of points redeemable for cash is recorded as a reduction of gaming revenue and the estimated amount of points redeemable for services and merchandise is recorded as gaming expense. In determining the amount of the liability, which was \$2,050,000 and \$2,038,000, respectively, at

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December 31, 2011 and 2010, we estimate a redemption rate, a cost of rewards to be offered and the mix of cash, goods and services for which reward points will be redeemed. We use historical data to estimate those amounts.

Revenue and expense recognition Gaming revenues represent (i) the net win from slot machine, table games and sports wagering and (ii) commissions from pari-mutuel wagering. Other operating revenues consist of hotel rooms revenue, food and beverage sales and other miscellaneous income. Revenues do not include the retail amount of hotel rooms, food and beverage and other miscellaneous goods and services provided without charge to customers as promotional items of \$20,375,000, \$18,306,000 and \$18,255,000 for the years ended December 31, 2011, 2010 and 2009, respectively. The estimated direct cost of providing these items has been charged to the casino through interdepartmental allocations and is included in gaming expenses in the consolidated statements of earnings.

For the casino operations, which account for approximately 90% of revenues for all periods presented, the difference between the amount wagered by bettors and the amount paid out to bettors is referred to as the win. The win is included in the amount recorded in our consolidated financial statements as gaming revenue. The Delaware State Lottery Office sweeps the win from the casino operations, collects the State's share of the win and the amount due to the vendors under contract with the State who provide the slot machines and associated computer systems, collects the amount allocable to purses for harness horse racing and remits the remainder to us as our commission for acting as a Licensed Agent. Gaming expenses include the amounts collected by the State (i) for the State's share of the win, (ii) for remittance to the providers of the slot machines and associated computer systems, and (iii) for harness horse racing purses. We recognize revenues from sports wagering commissions when the event occurs. We recognize revenues from pari-mutuel commissions earned from live harness horse racing and importing of simulcast signals from other race tracks when the race occurs. Revenues from hotel rooms, food and beverage sales and other miscellaneous income are recognized at the time the service is provided.

Advertising costs The cost of general advertising is charged to operations as incurred.

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 EPS is applied for all periods presented. The following table sets forth the computation of basic and diluted EPS for the years ended December 31, 2011, 2010 and 2009 (in thousands, except per share amounts):

	2011	2010	2009
Net earnings per common share basic:			
Net earnings	\$ 5,359	\$ 6,743	\$ 11,277
Net earnings allocated to nonvested restricted stock awards	124	144	203
Net earnings available to common stockholders	\$ 5,235	\$ 6,599	\$ 11,074
Weighted-average shares outstanding	31,645	31,555	31,492
Net earnings per common share basic	\$ 0.17	\$ 0.21	\$ 0.35
Net earnings per common share diluted:			
Net earnings	\$ 5,359	\$ 6,743	\$ 11,277
Net earnings allocated to nonvested restricted stock awards	124	144	203
Net earnings available to common stockholders	\$ 5,235	\$ 6,599	\$ 11,074
Weighted-average shares outstanding	31,645	31,555	31,492

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Dilutive stock options

Weighted-average shares and dilutive shares outstanding	31,645	31,555	31,492
Net earnings per common share diluted	\$ 0.17	\$ 0.21	\$ 0.35

For the years ended December 31, 2011, 2010 and 2009, weighted-average options to purchase 9,000, 438,000 and 635,000 shares of common stock, respectively, were outstanding but not included in the computation of diluted EPS because they would have been anti-dilutive.

Accounting for stock-based compensation We recorded total stock-based compensation expense for our restricted stock awards and stock options of \$905,000, \$1,192,000 and \$952,000 as general and administrative expenses for the years ended December 31, 2011, 2010 and 2009, respectively. We recorded income tax benefits of \$142,000, \$248,000 and \$351,000 for the years ended December 31, 2011, 2010 and 2009, 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.

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

Recent accounting pronouncements In April 2010, the FASB issued Accounting Standards Update (ASU) 2010-16 codified in FASB ASC Topic 924, *Accruals for Casino Jackpot Liabilities a consensus of the FASB Emerging Issues Task Force*, which addresses diversity in practice in the accounting for casino base jackpot liabilities. ASU 2010-16 clarifies that an entity should not accrue jackpot liabilities before a jackpot is won if the entity can avoid paying that jackpot. Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. The provisions of ASU 2010-16 were effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. We adopted the provisions of ASU 2010-16 effective January 1, 2011. Prior to adopting ASU 2010-16, we accrued jackpot liabilities before they were won. Upon adopting ASU 2010-16, we changed our approach to only accrue jackpot liabilities when we have an obligation to pay the jackpot. As a result of adopting ASU 2010-16, we recorded an adjustment of \$187,000, net of income tax effect of \$124,000, to the beginning balance of retained earnings at January 1, 2011.

NOTE 3 Impairment Charge

We had previously completed architectural and engineering work related to a Phase 7 casino expansion that would have included, among other things, a new sports book facility and a parking garage. Given the decision by the US Court of Appeals for the Third Circuit to limit the extent of sports wagering in Delaware and the higher gaming tax rates that were legislated in the third quarter of 2009, we decided not to proceed with these projects. During the third quarter of 2009, we wrote off \$2,177,000 of capitalized costs related to these expansion projects.

NOTE 4 Property and Equipment

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

	2011	2010
Land	\$ 785,000	\$ 785,000
Casino facility	77,298,000	77,002,000
Hotel facility	113,029,000	113,007,000
Harness racing facilities	10,814,000	10,849,000
General facilities	16,315,000	16,052,000
Furniture, fixtures and equipment	55,828,000	55,521,000
Construction in progress	336,000	239,000
	274,405,000	273,455,000
Less accumulated depreciation	(97,990,000)	(87,228,000)
	\$ 176,415,000	\$ 186,227,000

NOTE 5 Accrued Liabilities

Accrued liabilities consist of the following as of December 31:

	2011	2010
Point loyalty program	\$ 2,050,000	\$ 2,038,000
Payroll and related items	2,274,000	2,563,000
Win due to Delaware State Lottery Office	5,416,000	3,693,000
Gaming license fees	795,000	2,044,000
Other	1,377,000	1,948,000
	\$ 11,912,000	\$ 12,286,000

NOTE 6 Credit Facility

At December 31, 2011, we had a \$90,000,000 credit agreement with a bank group. The maximum borrowing limit under the facility reduces to \$85,000,000 as of March 31, 2012, \$80,000,000 as of March 31, 2013 and \$75,000,000 as of March 31, 2014 and the facility expires June 17, 2014. Interest is based upon LIBOR plus a margin that varies between 150 and 225 basis points (225 basis points at December 31, 2011) depending on the ratio of funded debt to earnings before interest, taxes, depreciation and amortization (the leverage ratio). The credit facility contains certain covenants including minimum interest coverage, maximum funded debt to earnings before interest, taxes, depreciation and amortization and minimum tangible net worth. Material adverse changes in our results of operations could impact our ability to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause. The credit facility provides for seasonal funding needs, capital improvements and other general corporate purposes. At December 31, 2011, we were in compliance with all terms of the facility and there was \$69,000,000 outstanding at a weighted average interest rate of 2.54%. At December 31, 2011, \$21,000,000 was available pursuant to the facility; however, in order to maintain compliance with the required quarterly debt covenant calculations as of December 31, 2011 \$5,139,000 could have been borrowed as of that date.

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Effective January 15, 2009, we entered into an interest rate swap agreement that effectively converts \$35,000,000 of our variable-rate debt to a fixed-rate basis, thereby hedging against the impact of potential interest rate changes on future interest expense. The agreement terminates on April 17, 2012. Pursuant to this agreement, we pay a fixed interest rate of 1.74%, plus a margin that varies between 150 and 225 basis points depending on our leverage ratio (225 basis points at December 31, 2011). In return, the issuing lender refunds to us the variable-rate interest paid to the bank group under our revolving credit agreement on the same notional principal amount, excluding the margin. At December 31, 2011, the interest rate on our interest rate swap was 3.99%.

NOTE 7 Income Taxes

The current and deferred income tax provisions are as follows:

	Years ended December 31,		
	2011	2010	2009
Current:			
Federal	\$ 3,266,000	\$ 3,825,000	\$ 6,010,000
State	934,000	1,011,000	1,612,000
	4,200,000	4,836,000	7,622,000
Deferred:			
Federal	(306,000)	(133,000)	126,000
State	(83,000)	48,000	61,000
	(389,000)	(85,000)	187,000
Total income taxes	\$ 3,811,000	\$ 4,751,000	\$ 7,809,000

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

	Years ended December 31,		
	2011	2010	2009
Federal tax at statutory rate	34.0%	35.0%	35.0%
State taxes, net of federal benefit	5.8%	5.7%	5.7%
Other	1.8%	0.6%	0.2%
Effective income tax rate	41.6%	41.3%	40.9%

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

	2011	2010
Deferred income tax assets:		
Point loyalty program	\$ 814,000	\$ 857,000
Accrued expenses	2,152,000	1,742,000
Other	725,000	953,000
Total deferred income tax assets	3,691,000	3,552,000
Deferred income tax liabilities:		
Depreciation property and equipment	(5,675,000)	(6,427,000)
Total deferred income tax liabilities	(5,675,000)	(6,427,000)
Net deferred income tax liabilities	\$ (1,984,000)	\$ (2,875,000)
Amounts recognized in the consolidated balance sheet:		
Current deferred income tax assets	\$ 1,317,000	\$ 1,349,000
Noncurrent deferred income tax liabilities	(3,301,000)	(4,224,000)
	\$ (1,984,000)	\$ (2,875,000)

NOTE 8 Pension Plans

We maintain a non-contributory, tax qualified defined benefit pension plan. All of our full time employees were eligible to participate in this qualified pension plan. Benefits provided by our qualified pension plan were based on years of service and employees remuneration over their term of employment. We also maintain a non-qualified, non-contributory defined benefit pension plan for certain employees. This excess plan provided benefits that would otherwise be provided under the qualified pension plan but for maximum benefit and compensation limits applicable under federal tax law. The cost associated with the excess plan is determined using the same actuarial methods and assumptions as those used for our qualified pension plan.

On June 15, 2011, we decided to freeze participation and benefit accruals under our pension plans, primarily to reduce some of the impact on earnings and volatility in cash flows that can accompany the maintenance of a defined benefit plan. The freeze was effective July 31, 2011. Compensation earned by employees up to July 31, 2011 shall

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be used for purposes of calculating benefits under our pension plan but there will be no future benefit accruals after this date. Participants as of July 31, 2011 will continue to earn vesting credit with respect to their frozen accrued benefits as they continue to work. We accounted for the freeze of our pension plans in 2011 which resulted in a curtailment gain of \$13,000, reduced our liability for pension benefits by \$2,006,000 and increased comprehensive earnings by \$1,994,000.

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

	2011	2010
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 14,707,000	\$ 12,308,000
Service cost	1,030,000	1,295,000
Interest cost	865,000	773,000
Actuarial loss	2,685,000	484,000
Curtailment	(2,006,000)	
Benefits paid	(267,000)	(153,000)
Benefit obligation at end of year	17,014,000	14,707,000
Change in plan assets:		
Fair value of plan assets at beginning of year	9,758,000	7,408,000
Actual (loss) gain on plan assets	(2,000)	818,000
Employer contribution	1,750,000	1,685,000
Benefits paid	(267,000)	(153,000)
Fair value of plan assets at end of year	11,239,000	9,758,000
Unfunded status	\$ (5,775,000)	\$ (4,949,000)

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

	2011	2010
Accrued benefit cost	\$ (205,000)	\$ (4,949,000)
Liability for pension benefits	(5,570,000)	(4,949,000)
	\$ (5,775,000)	\$ (4,949,000)

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

	2011	2010
Net actuarial loss	\$ 3,692,000	\$ 2,142,000
Prior service cost		16,000
	\$ 3,692,000	\$ 2,158,000

The accumulated benefit obligation for all defined benefit pension plans was \$17,014,000 and \$12,731,000, respectively, as of December 31, 2011 and 2010.

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The components of net periodic pension cost for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Service cost	\$ 1,030,000	\$ 1,295,000	\$ 1,408,000
Interest cost	865,000	773,000	683,000
Expected return on plan assets	(880,000)	(697,000)	(501,000)
Curtailement gain	(13,000)		
Recognized net actuarial loss	27,000	26,000	202,000
Recognized prior service cost	4,000	9,000	8,000
	\$ 1,033,000	\$ 1,406,000	\$ 1,800,000

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For the year ending December 31, 2012, we expect to recognize the following amounts as components of net periodic benefit cost which are included in accumulated comprehensive loss as of December 31, 2011:

Actuarial loss	\$ 173,000
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The principal assumptions used to determine the net periodic pension cost for the years ended December 31, 2011, 2010 and 2009, and the actuarial value of the benefit obligation at December 31, 2011 and 2010 (the measurement dates) for our pension plans are as follows:

	Net Periodic Pension Cost			Benefit Obligation	
	2011	2010	2009	2011	2010
Weighted-average discount rate	6.2%	6.5%	6.1%	5.1%	6.2%
Weighted-average rate of compensation increase	4.0%	5.0%	5.0%	n/a	4.0%
Expected long-term rate of return on plan assets	8.5%	8.5%	8.5%	n/a	n/a

For 2011, we assumed a long-term rate of return on plan assets of 8.5%. In developing the 8.5% expected long-term rate of return assumption, we reviewed asset class return expectations and long-term inflation assumptions and considered our historical compounded return, which was consistent with our long-term rate of return assumption.

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

The fair values of our pension assets as of December 31, 2011 by asset category are as follows (refer to NOTE 10 Financial Instruments for a description of Level 1, Level 2 and Level 3 categories):

Asset Category	Total	Level 1	Level 2	Level 3
Corporate common stock	\$ 1,110,000	\$ 1,110,000	\$	\$
Mutual funds/ETFs:				
Equity-large cap	2,220,000	2,220,000		
Equity-mid cap	1,017,000	1,017,000		
Equity-small cap	223,000	223,000		
Equity-international	1,460,000	1,460,000		
Fixed income	4,208,000	4,208,000		
Real estate	595,000	595,000		
Money market	406,000	406,000		
Total mutual funds/ETFs	10,129,000	10,129,000		
Grand total	\$ 11,239,000	\$ 11,239,000	\$	\$

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The fair values of our pension assets as of December 31, 2010 by asset category are as follows (refer to NOTE 10 Financial Instruments for a description of Level 1, Level 2 and Level 3 categories):

Asset Category	Total	Level 1	Level 2	Level 3
Mutual funds/ETFs:				
Equity-large cap	\$ 2,516,000	\$ 2,516,000	\$	\$
Equity-small cap	358,000	358,000		
Equity-international	1,289,000	1,289,000		
Fixed income	4,124,000	4,124,000		
Real estate	191,000	191,000		
Money market	1,280,000	1,280,000		
Total	\$ 9,758,000	\$ 9,758,000	\$	\$

We expect to contribute approximately \$1,000,000 to our pension plans in 2012.

Benefit payments are expected to be paid as follows:

2012	\$	592,000
2013	\$	448,000
2014	\$	493,000
2015	\$	567,000
2016	\$	718,000
2017-2021	\$	3,763,000

We maintain a defined contribution 401(k) plan which permits participation by substantially all employees. Our matching contributions to the 401(k) plan were \$237,000, \$179,000 and \$98,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

NOTE 9 Stockholders Equity

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

	Common Stock	Class A Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss
Balance at December 31, 2008	\$ 1,521	\$ 1,660	\$ 933	\$ 98,697	\$ (2,292)
Net earnings				11,277	
Dividends paid, \$.20 per share				(6,415)	
Issuance of nonvested stock awards, net of forfeitures	27		(27)		
Stock-based compensation			952		
Tax shortfall from stock awards			(137)		
Unrealized loss on interest rate swap, net of income tax benefit of \$76					(110)
Change in pension net actuarial loss and prior service cost, net of income tax expense of \$813					1,186
Unrealized gain on available-for-sale securities, net of income tax expense of \$7					10
Reclassification adjustment for loss realized on available-for-sale securities, net of income tax benefit of \$11					16
Repurchase and retirement of common stock	(2)		(57)		
Balance at December 31, 2009	1,546	1,660	1,664	103,559	(1,190)
Net earnings				6,743	

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Dividends paid, \$.12 per share				(3,870)	
Issuance of nonvested stock awards, net of forfeitures	21		(21)		
Stock-based compensation			1,192		
Unrealized loss on interest rate swap, net of income tax benefit of \$167					(245)
Change in pension net actuarial loss and prior service cost, net of income tax benefit of \$133					(194)
Unrealized gain on available-for-sale securities, net of income tax expense of \$2					3
Repurchase and retirement of common stock	(3)		(114)		
Balance at December 31, 2010	1,564	1,660	2,721	106,432	(1,626)

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	Common Stock	Class A Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss
Cumulative effect of accounting change for adoption of ASU 2010-16 (see NOTE 2)				187	
Balance at January 1, 2011	1,564	1,660	2,721	106,619	(1,626)
Net earnings				5,359	
Dividends paid, \$0.12 per share				(3,888)	
Issuance of nonvested stock awards, net of forfeitures	16		(16)		
Stock-based compensation			905		
Unrealized gain on interest rate swap, net of income tax expense of \$179					272
Change in net actuarial loss and prior service cost, net of income tax benefit of \$609					(925)
Unrealized loss on available-for-sale securities, net of income tax benefit of \$4					(5)
Repurchase and retirement of common stock	(4)		(146)		
Balance at December 31, 2011	\$ 1,576	\$ 1,660	\$ 3,464	\$ 108,090	\$ (2,284)

As of December 31, 2011 and 2010, accumulated other comprehensive loss consists of the following:

	2011	2010
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of \$1,486,000 and \$877,000, respectively	\$ (2,206,000)	\$ (1,281,000)
Unrealized loss on interest rate swap, net of income tax benefit of \$64,000 and \$243,000, respectively	(83,000)	(355,000)
Accumulated unrealized gain on available-for-sale securities, net of income tax expense of \$4,000 and \$8,000, respectively	5,000	10,000
Accumulated other comprehensive loss	\$ (2,284,000)	\$ (1,626,000)

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

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

Under Delaware law, a change of ownership of a Licensed Agent will automatically terminate its license 90 days after the change of ownership occurs, unless the Director of the Delaware State Lottery Office determines after application to issue a new license to the new owners. Change

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

We adopted a stockholder rights plan in 2002. The rights are attached to and trade in tandem with our common stock and Class A common stock. Each right entitles the registered holder to purchase from us one share of common stock. The rights, unless earlier redeemed by our Board of Directors, will detach and trade separately from our common stock upon the occurrence of certain events such as the unsolicited acquisition by a third party of beneficial ownership of 10% or more of our outstanding combined common stock and Class A common stock or the announcement by a third party of the intent to commence a tender or exchange offer for 10% or more of our outstanding combined common stock and Class A common stock. After the rights have detached, the holders of such rights would generally have the ability to purchase such number of either shares of our common stock or stock of an acquirer of ours having a market value equal to twice the exercise price of the right being exercised, thereby causing substantial dilution to a person or group of persons attempting to acquire control of us. The rights may serve as a significant deterrent to unsolicited attempts to acquire control of us, including transactions involving a premium to the market price of our stock. This rights agreement expired on January 1, 2012 and was replaced by a new agreement with similar terms on the same date.

On January 25, 2012, our Board of Directors declared a quarterly cash dividend on both classes of common stock of \$.03 per share. The dividend is payable on March 10, 2012 to stockholders of record at the close of business on February 10, 2012.

On October 23, 2002, our Board of Directors authorized the repurchase of up to 3,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during 2011, 2010 or 2009. At December 31, 2011, we had remaining repurchase authority of 1,653,333 shares.

During the years ended December 31, 2011, 2010 and 2009, we purchased and retired 43,427, 30,697 and 15,325 shares of our outstanding common stock for \$150,000, \$117,000 and \$59,000, respectively. These purchases were made from employees in connection with the vesting of restricted stock awards under our stock incentive plan and were not pursuant to the aforementioned repurchase authorization. Since the vesting of a restricted stock award is a taxable event to our employees for which income tax withholding is required, the plan allows employees to surrender to us some of the shares that would otherwise have vested in satisfaction of their tax liability. The surrender of these shares is treated by us as a purchase of the shares.

We have a stock incentive plan which provides for the grant of up to 2,250,000 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 stock awards. Under the plan, option grants must have an exercise price of not less than 100% of the fair market value of the underlying shares of common stock at the date of the grant. The stock options have eight-year terms and generally vest equally over a period of six years from the date of grant. Once the options are exercised, our plan requires that the common stock be held for a minimum of one year. The nonvested stock vests an aggregate of twenty percent each year beginning on the second anniversary date of the grant. As of December 31, 2011, there were 948,787 shares available for granting options or stock awards.

Stock option activity for the year ended December 31, 2011 was as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in yrs)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	339,276	\$ 6.35		
Expired	(339,276)	\$ 6.35		

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Outstanding at December 31, 2011	\$	\$
Exercisable at December 31, 2011	\$	\$

No stock options were granted or exercised during the three year period ending December 31, 2011.

The total fair value of stock options vested during the years ended December 31, 2010 and 2009 was \$1,000 and \$203,000, respectively. There were no unvested stock options as of December 31, 2010. No compensation expense was recognized for the years ended December 31, 2011 or 2010. We recorded, within general and administrative expenses, compensation expense of \$4,000 related to stock options for the year ended December 31, 2009.

Nonvested restricted stock activity for the year ended December 31, 2011 was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2010	682,300	\$ 5.92
Granted	213,500	\$ 3.40
Forfeited	(43,400)	\$ 4.98
Vested	(131,500)	\$ 7.80
Nonvested at December 31, 2011	720,900	\$ 4.89

The aggregate market value of the nonvested restricted stock at the date of issuance is being amortized on a straight-line basis over the six-year service period or the service period remaining until normal retirement age, if shorter. The total fair value of shares vested during the years ended December 31, 2011, 2010 and 2009 was \$1,025,000, \$940,000 and \$681,000, respectively. The grant-date fair value of restricted stock awards granted during the years ended December 31, 2011, 2010 and 2009 was \$3.40, \$3.78 and \$3.68, respectively. We recorded, within general and administrative expenses, compensation expense of \$905,000, \$1,192,000 and \$948,000 related to restricted stock awards for the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, there was \$1,938,000 of total deferred compensation cost related to nonvested restricted stock awards granted to employees under our stock incentive plan. That cost is expected to be recognized over a weighted-average period of 3.4 years.

NOTE 10 Financial Instruments

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

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

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

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

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The following table summarizes the valuation of our financial instrument pricing levels as of December 31, 2011 and 2010:

	Total	Level 1	Level 2	Level 3
2011:				
Available-for-sale securities	\$ 213,000	\$ 213,000	\$	\$
Interest rate swap	(147,000)		(147,000)	
2010:				
Available-for-sale securities	\$ 140,000	\$ 140,000	\$	\$
Interest rate swap	(598,000)		(598,000)	

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

At December 31, 2011 and 2010, there was \$69,000,000 and \$78,600,000, respectively, outstanding under our revolving credit agreement. The borrowings under our revolving credit agreement bear interest at the variable rate described in NOTE 6 Credit Facility and therefore we believe approximate fair value. We are subject to interest rate risk on the variable component of the interest rate. Our risk management objective is to lock in the interest cash outflows on a portion of our debt. As a result, as described in NOTE 6 Credit Facility, we entered into an interest rate swap agreement effectively converting a portion of the outstanding borrowings under the revolving credit agreement to a fixed-rate, thereby hedging against the impact of potential interest rate changes on future interest expense. At December 31, 2011 and 2010, the interest rate swap had a negative fair value of \$147,000 and \$598,000, respectively, which is recorded in other liabilities. The fair value of the interest rate swap was based on quotes from the issuer of the swap and represents the estimated amounts that we would expect to pay to terminate the swap. We recognized \$268,000 and (\$245,000), net of income taxes, in unrealized gains (losses) on our interest rate swap during 2011 and 2010, respectively.

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

NOTE 11 Related Party Transactions

During the years ended December 31, 2011, 2010 and 2009, we allocated costs of \$1,963,000, \$1,977,000 and \$1,983,000, respectively to DVD, a company related through common ownership, for certain administrative and operating services, including leased space. DVD allocated certain administrative and operating service costs of \$347,000, \$222,000 and, \$225,000, respectively, to us for the years ended December 31, 2011, 2010 and 2009. The allocations were based on an analysis of each company's share of the costs. In connection with DVD's 2011, 2010 and 2009 NASCAR event weekends at Dover International Speedway, we provided certain services, primarily catering, for which DVD was invoiced \$855,000, \$928,000 and \$999,000, respectively. Additionally, DVD invoiced us \$397,000, \$353,000 and \$375,000, respectively, for our rental of a skybox suite, tickets, their commission for suite catering and other services during DVD's 2011, 2010 and 2009 NASCAR event weekends at Dover International Speedway. As of December 31, 2011 and 2010, our consolidated balance sheets included an \$11,000 payable to and an \$18,000 receivable from DVD, respectively, for the aforementioned items. We settled these items in January of 2012 and 2011, respectively. The net costs incurred by each company for these services are not necessarily indicative of the costs that would have been incurred if the companies had been unrelated entities and/or had otherwise independently managed these functions; however, management believes that these costs are reasonable.

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

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

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

the Transition Support Services Agreement.

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

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

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

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

NOTE 12 Commitments and Contingencies

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

We have employment, severance and noncompete agreements with certain of our officers and directors under which certain change of control, severance and noncompete payments and benefits might become payable in the event of a change in our control, defined to include a tender offer or the closing of a merger or similar corporate transactions. In the event of such a change in our control and the subsequent termination of employment of all employees covered under these agreements, we estimate that the maximum contingent liability would range from \$8,800,000 to \$10,200,000 depending on the tax treatment of the payments.

To the extent that any of the potential payments or benefits due under the agreements constitute an excess parachute payment under the Internal Revenue Code and result in the imposition of an excise tax, each agreement requires that we pay the amount of such excise tax plus any additional amounts necessary to place the officer or director in the same after-tax position as he would have been had no excise tax been imposed. We estimate that the tax gross ups that could be paid under the agreements in the event the agreements were triggered due to a change of control could be between \$1,100,000 and \$2,500,000 and these amounts have been included in the maximum contingent liability disclosed above. This maximum tax gross up assumes that none of the payments made after the hypothetical change in control would be characterized as reasonable compensation for services rendered. Each agreement with an executive officer provides that fifty percent of the monthly amount paid during the term is paid in consideration of the executive officer's non-compete covenants. The exclusion of these amounts would reduce the calculated amount of excess parachute payments subject to tax. We are unable to conclude whether the Internal Revenue Service would characterize all or some of these non-compete payments as reasonable compensation for services rendered.

NOTE 13 Quarterly Results (unaudited)

	March 31	June 30	September 30	December 31
Year Ended December 31, 2011				
Revenues	\$ 59,406,000	\$ 58,815,000	\$ 60,102,000	\$ 61,619,000
Operating earnings	\$ 1,133,000	\$ 2,895,000	\$ 3,924,000	\$ 4,135,000
Net (loss) earnings	\$ (38,000)	\$ 1,238,000	\$ 2,039,000	\$ 2,120,000
Net earnings per share-basic	\$	\$ 0.04	\$ 0.06	\$ 0.07
Net earnings per share-diluted	\$	\$ 0.04	\$ 0.06	\$ 0.07
Year Ended December 31, 2010				
Revenues	\$ 56,050,000	\$ 58,458,000	\$ 65,700,000	\$ 57,941,000
Operating earnings	\$ 3,876,000	\$ 4,753,000	\$ 4,499,000	\$ 1,620,000
Net earnings	\$ 1,673,000	\$ 2,277,000	\$ 2,292,000	\$ 501,000
Net earnings per share-basic	\$ 0.05	\$ 0.07	\$ 0.07	\$ 0.02
Net earnings per share-diluted	\$ 0.05	\$ 0.07	\$ 0.07	\$ 0.02