

## **Analysis of Dover Downs Racino, Delaware, quarterly reports**

from Trends in Smokefree Gaming by Karen Blumenfeld, esq., New Jersey GASP

Delaware's smokefree air law passed on November 27, 2002; it went into effect on March 10, 2003 (that's the effective date stated in the law, although the racinos stated it went into effect in November). In May 2003, the head of Park Place Entertainment, [a.k.a. Caesars (name change in January 2004), now Harrah's (merger in 2005)], testified before the New Jersey Legislature's Senate Health Committee. He testified that the Delaware smokefree law had a negative effect on gaming revenues, in that revenues dropped 25% since the ban took effect in November 2002. He did not present any studies to prove this, so I decided to investigate to determine if Caesars Entertainment (that had a management agreement with Dover Downs) and/or Dover Downs claimed at any time that their revenues were affected by the Delaware smoking ban.

The research consisted of a review of the quarterly earnings reports from 4th quarter 2002 thru 4th quarter 2004 that both Dover Downs and Caesars Entertainment are required to file with the Securities and Exchange Commission. Caesars Entertainment's "Eastern Division" includes Dover Downs and Atlantic City, and as such, the Eastern Division earnings information was the focus of the review for the Caesars Entertainment earnings reports. There are two major findings from the data that I reviewed:

1. Caesars Entertainment filings never mentioned that the Eastern Region was affected by the Delaware smokefree law.
2. Although Dover Downs' filings predicted a negative impact on business from the smokefree law, the report filed by Dover Downs states that the CEO was "extremely happy with the 4th quarter [2004] results", and that its hotel's occupancy rate for the year was at 95%.

Caesars Entertainment's quarterly reports from 4<sup>th</sup> quarter 2002 to 4<sup>th</sup> quarter 2004 never mentioned the smokefree law as a reason for any changes in revenues for their Eastern Region, which includes Atlantic City and Dover Downs. Rather, over the course of those two years, the Caesars Entertainment quarterly reports blamed these factors:

- bad weather
- Iraqi war

- Sars fear
- economy
- Borgata competition
- Atlantic City union strike.

The Dover Downs quarterly reports from 4<sup>th</sup> quarter 2002 to 1<sup>st</sup> quarter 2003 initially blamed the decrease in revenues on three factors:

- severe weather
- economy
- smokefree law (no empirical data is supplied in the filed reports to support this).

The 2<sup>nd</sup> quarter results blamed the decrease in slot revenues on the smoking ban, but hotel occupancy rates increased. By 3<sup>rd</sup> quarter 2003, although revenues were down, margins increased, along with hotel occupancy rates. In December 2003, Dover Downs showed a 7% increase in slot earnings, which its report states is due to:

- new legislation going into effect, that allows for more slots, higher betting limits, credit play and longer hours
- completed renovation and construction of the facility.

Only in June 2004 did Dover Downs have a decrease in revenues, blaming two factors, but NOT the smokefree law:

- high gas prices
- soft economy.

Gross revenues increased for both the 3<sup>rd</sup> and 4<sup>th</sup> quarters at Dover Downs, with record hotel occupancy rates at 95%. In fact, Denis McGlynn, the President and CEO of Dover Downs, stated, "We are extremely happy [emphasis added] with our fourth quarter results, as well as our slot win growth for 2004 as a whole.... Our level of play is increasing, but more importantly, our level of play from our Club customers is increasing faster." Ironically, two and a half years earlier, Mr. McGlynn testified before the Delaware Senate in May 2003 that Delaware's revenue losses could reach \$57 million if smokers abandoned the state's three casinos (see <http://www.mascotcoalition.org/initiatives/cia/delaware.html>).

Conclusions from data reviewed:

Dover Downs had (1) positive earnings reports since it renovated and expanded in early 2004, due to several factors, including legislation that allowed for more slots, increased betting limits, etc. and (2) record hotel occupancy rates of 95% for 2004. It attributed the slowdown in June 2004 to increased gas prices and a softness in the industry, not the smokefree law. The last time that the smokefree law was blamed for decreased revenues in their quarterly filings was 2<sup>nd</sup> quarter 2003, almost two years ago. Caesars Entertainment did not mention in its filings that the Delaware smokefree law was a reason for decreased revenues in their Eastern Division, which includes Atlantic City and Dover Downs. In fact, while 4th quarter 2004 revenues were down for the Eastern region due to the A.C. strike, Dover Downs had an increase in revenues for both the 3rd and 4th quarters 2004.

2005 Follow-up: 1st and 2nd Quarter 2005 earnings for Dover Downs:

Gross revenues are up for Dover Downs for both 1<sup>st</sup> and 2<sup>nd</sup> quarter 2005, compared to those quarters in 2004. As of December 28, 2004, Dover Downs no longer has a management agreement with Caesars Entertainment regarding video slots. Caesars Entertainment merged with Harrah's. Thus Caesars' SEC quarterly filings are not filed separately from Harrah's.