EUROPEAN EQUITY FUND, INC / MD
Form N-CSR
March 06, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM N-CSR

Investment Company Act file number: 811-04632

The European Equity Fund, Inc.
(Exact Name of Registrant as Specified in Charter)

345 Park Avenue
New York, NY 10154-0004
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code: (212) 250-3220

Paul Schubert
60 Wall Street
New York, NY 10005
(Name and Address of Agent for Service)

Date of fiscal year end: 12/31

Date of reporting period: 12/31/2012

ITEM 1. REPORT TO STOCKHOLDERS

SUMMARY OF GENERAL INFORMATION

THE FUND

The European Equity Fund, Inc. (the "Fund") is a diversified, actively-managed closed-end fund listed on the New York Stock Exchange with the symbol "EEA." The Fund seeks long-term capital appreciation primarily through investment in European equities. It is advised and administered by wholly-owned subsidiaries of the Deutsche Bank Group.

SHAREHOLDER INFORMATION

Prices for the Fund's shares are published weekly in the New York Stock Exchange Composite Transactions section of certain newspapers. Net asset value and market price information are published each Saturday in Barron's and other newspapers in a table called "Closed End Funds." Daily information on the Fund's net asset value is available from NASDAQ (symbol XEEAX). It is also available by calling: 1-800-437-6269 (in the U.S.) or 00-800-2287-2750 (outside of the U.S.). In addition, a schedule of the Fund's largest holdings, dividend data and general shareholder information may be obtained by calling these numbers.

The foregoing information is also available on our web site: www.dws-investments.com.

There are three closed-end funds investing in European equities advised and administered by wholly owned subsidiaries of the Deutsche Bank Group:

- The European Equity Fund, Inc.—investing primarily in equity or equity-linked securities of companies domiciled in countries utilizing the euro currency (with normally at least 80% in securities of issuers in such countries).

- The New Germany Fund, Inc.—investing primarily in equity or equity-linked securities of middle market German companies with up to 20% in other Western European companies (with no more than 15% in any single country).

- The Central Europe and Russia Fund, Inc.—investing primarily in equity or equity-linked securities of issuers domiciled in Central Europe and Russia (with normally at least 80% in securities of issuers in such countries).

Please consult your broker for advice on any of the above or call 1-800-437-6269 (in the U.S.) or 00-800-2287-2750 (outside of the U.S.). for shareholder reports.

The European Equity Fund is diversified and primarily focuses its investments in equity securities of issuers domiciled in European countries that utilize the euro currency, thereby increasing its vulnerability to developments in that region.

Investing in foreign securities presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Any fund that concentrates in a particular segment of the market will generally be more volatile than a fund that invests more broadly.

The European
Equity Fund, Inc.

Annual Report

December 31, 2012

The European
Equity Fund, Inc.

LETTER TO THE SHAREHOLDERS

Dear Shareholder,

For the 12 months ended December 31, 2012, the Fund's total return in U.S. dollars (USD) was 21.17% based on net asset value and 23.44% based on market price. During the same period, the total return in USD of the Fund's benchmark, the MSCI-EMU Index, was 21.17%.1

After falling dramatically in 2011 and in spite of ongoing poor economic news throughout most of 2012, European equity markets experienced a significant surge in the past year, particularly in the second half of the year. The Fund's overall defensive positioning allowed it to outperform the market significantly in the first half while markets were weak, but caused it to give back some of that outperformance in the second half as markets strengthened. For the full year, the Fund matched the performance of its benchmark with a 21.17% annual return in the reporting period based on net asset value. The substantial rally was a result of many factors, but was most significantly due to the expansionary money supply and liquidity supplied by central banks globally to prevent an economic depression. The fourth quarter was particularly positive for European equities as investors' appetites for riskier assets increased, with improved sentiment attributable in part to a recovery of leading indicators in China and Germany, more robust U.S. economic data, and a new rescue package for Greece.

In China, where growth expectations had been falling during most of 2012, two data points released in the fourth quarter triggered more positive investor sentiment for that market. The Purchasing Managers Index (PMI) rose more than expected and retail sales growth improved in November, the strongest growth since March.2 In Germany, the monthly Ifo Business Climate Index, which had been steadily falling since April, saw its low point in October and continued improving through the end of the year.3 In the U.S., the unemployment rate dropped to a four-year low of 7.7% and industrial production gained more than expected in November, driven by a strong surge in motor vehicle output. Additionally, the U.S. trade deficit fell to its lowest level since December 2010, given exceptionally strong exports. A string of improved news from Greece took this past hot spot momentarily out of investors' focus. The Greek Troika, a tripartite committee of the European Commission with European central banks and the International Monetary Fund (IMF), gave a positive assessment for Greece in November; IMF agreed on a new rescue deal; and the Greek government was able to repurchase EUR 31.9 Bn of its debt for 33.8% of its face value.4,5

In 2012, the Fund benefited from its "Stability Strategy," initially implemented in the third quarter of 2011, which positioned the Fund defensively and provided significant protection in periods where markets were falling. Under this strategy, portfolio management considers three factors in picking stocks — quality, value and momentum — and focuses on low-volatility, high-quality European equities paying higher-than-average dividends, targeting a typical fund beta below that of the market.6 The strategy caused the Fund to outperform significantly in the first half of the year, while in the second half, as riskier assets came more into favor, the Fund gave up part of its accumulated outperformance in spite of adjustments made by Portfolio Management in the third quarter to mitigate this effect. The focus on high-quality stocks, while already reduced, detracted from performance in the final quarter. Towards the end of the year, we observed a significant low-quality, low-value move with a strong momentum reversal. Additionally, we saw a shift within the "value" sector. It now makes sense to buy cheap cyclical stocks with leverage to a recovery.

While the Fund employs a strict stock-picking strategy, country and sector weights are actively monitored. Germany — the Fund's largest active overweight position, totaling close to 40% of the Fund's net asset value — and Norway contributed most positively to the Fund's full-year return.7 On a relative basis, performance detractors included the Fund's underweight in Belgium (no positions held) and the Netherlands.

From a sector perspective, the Fund's underweight in the energy sector and overweight in health care provided the largest positive contribution to return relative to its benchmark, while underweights in financials and materials detracted from performance. Financials, which saw the largest weighting increase from the prior year-end, provided the best absolute returns, but the sector remained underrepresented in the Fund for most of the year. The biggest sector increases also included additions to the information technology and

For additional information about the Fund including performance, dividends, presentations, press releases, market updates, daily NAV and shareholder reports, please visit www.dws-investments.com materials sectors. The biggest reductions from the prior year took place in consumer staples, telecommunication services and energy.8

The Fund's discount to net asset value averaged 10.03% for the full-year 2012, compared with 9.05% for the same period a year earlier. For the three months ended December 31, 2012, the discount was 10.21%, compared with 9.15% for the same quarter a year earlier.

Economic and Market Overview

Although equity markets performed very well in 2012, we still deem current valuation levels as attractive. This view is not only based on the relative attractiveness of equities in the current low-interest rate environment, but in looking at historical valuation levels, we believe that equities have further potential. We still see the macroeconomic picture in Europe as challenging, but the negative surprise potential seems limited. With a further improvement of the Chinese economy, stable growth in the U.S. and a European economy that is no longer deteriorating, we believe European equities' risk-reward potential looks compelling.

Given the chance of a cyclical recovery, we have reduced our typically strong quality tilt. Going forward into 2013, we currently expect to seek to increasingly differentiate between companies delivering true long-term structural growth vs. those just benefitting from shorter-term cyclical growth, which is not sustainable.

Crucially, we would expect this year to become more volatile as it progresses and believe the Fund will continue to be well served with the more conservative "stability" investment strategy.

On January 28, 2013, pursuant to the Discount Management Program (announced in January 2012), the Fund announced that the next measurement period will commence on March 25, 2013 and expire on June 14, 2013. The Fund will conduct a tender offer if its shares trade at an average discount to NAV of more than 10% during the applicable twelve-week measurement period.

Sincerely,

Christian Strenger Chairman	Rainer Vermehren Lead Portfolio Manager	W. Douglas Beck President and Chief Executive Officer

The views expressed in the preceding discussion reflect those of the portfolio management team only through the end of the period of the report as stated on the cover. The management team's views are subject to change at any time based on market and other conditions and should not be construed as recommendations. Past performance is no guarantee of future results. Current and future portfolio holdings are subject to risk.

1 The MSCI-EMU Index is an unmanaged capitalization-weighted index that comprises approximately 300 stocks of companies domiciled in the countries utilizing the euro currency. MSCI indices are calculated using closing local market prices and translate into U.S. dollars using the London close foreign exchange rates. Index returns assume reinvested dividends and do not reflect any fees or expenses. It is not possible to invest directly in an index.

2 Purchasing Managers Index (PMI) — Maintained by the Institute for Supply Management (ISM), it is a composite of information extracted from the responses of surveys from more than 400 purchasing managers selected for their

geographic and industry diversification. The survey measures

response to topics such as production levels, new orders from customers, supplier deliveries, inventories and employment levels. Index returns do not reflect fees or expenses and it is not possible to invest directly into an index.

3 The Ifo Business Climate Index is a monthly survey that measures the business climate in Germany.

4 The Eurozone refers to a currency union among the European Union member states that have adopted the euro as their sole currency.

5 The International Monetary Fund (IMF) is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

6 Beta measures a security's sensitivity to the movements of the Fund's benchmark or the market as a whole. A beta of greater than one indicates more volatility than the benchmark or market, while a beta of less than one indicates less volatility.

7 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.

8 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs, and household products.

For additional information about the Fund including performance, dividends, presentations, press releases, market updates, daily NAV and shareholder reports, please visit www.dws-investments.com

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PERFORMANCE SUMMARY AS OF DECEMBER 31, 2012

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit www.dws-investments.com for the Fund's most recent performance.

TOTAL RETURNS:

	For the years ended December 31,				
	2012	2011	2010	2009	2008
Net Asset Value(a)	21.17%	(17.52)%	1.99%	33.76%	(50.68)%
	23.44%	(21.56)%	8.32%	36.84%	(53.96)%

Market Value(a)					
Benchmark(b)	21.17%	(17.64)%	(4.25)%	31.41%	(47.57)%

(a) Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market value reflects changes in market value during each period. Each figure includes reinvestments of dividend and capital gain distributions, if any. These figures will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares trade during the period.
(b) The MSCI-EMU Index is an unmanaged, capitalization-weighted index that is comprised of approximately 300 stocks of companies domiciled in the countries utilizing euro currency. MSCI indices are calculated using closing local market prices and translate into U.S. dollars using the London close foreign exchange rates.

Index returns assume reinvestment of dividends and, unlike Fund returns, do not reflect any fees or expenses and it is not possible to invest directly in an index.

Investments in funds involve risks, including the loss of principal.

This Fund is diversified and primarily focuses its investments in equity securities of issuers domiciled in European countries that utilize the euro currency, thereby increasing its vulnerability to developments in that region. Investing in foreign securities presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Any fund that concentrates in a particular segment of the market will generally be more volatile than a fund that invests more broadly.

The shares of most closed-end funds, including the Fund, are not continuously offered. Once issued, shares of closed-end funds are bought and sold in the open market through a stock exchange. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the Fund's shares is determined by a number of factors, several of which are beyond the control of the Fund. Therefore, the Fund cannot predict whether its shares will trade at, below, or above net asset value.

The Fund has elected to be subject to the statutory calculation, notification and publication requirements of the German Investment Tax Act (Investmentsteuergesetz) (the "Act") for the fiscal year ended December 31, 2012 and intends to elect to be subject to the Act for the fiscal year ending December 31, 2013. This election allows investors based in Germany to invest in the Fund without adverse tax consequences.

FUND FACTS AND DIVIDEND AND CAP GAIN DISTRIBUTIONS AS OF DECEMBER 31, 2012

FUND FACTS:

Net Assets	$77,511,304
Shares Outstanding	9,894,365
Net Asset Value (NAV) Per Share	$ 7.83

OTHER INFORMATION:

NYSE Ticker Symbol	EEA
NASDAQ Symbol	XEEAX
Dividend Reinvestment Plan	Yes
Voluntary Cash Purchase Program	Yes
Annual Expense Ratio (12/31/12)	1.79%

Fund statistics and expense ratio are subject to change. Distributions are historical, will fluctuate and are not guaranteed.

DIVIDEND AND CAPITAL GAIN DISTRIBUTIONS:*

Record Date	Payable Date	Ordinary Income	ST Capital Gain	LT Capital Gain	Total Distribution
12/31/12	01/28/13**	$ 0.1520	$ 0.0000	$ 0.0000	$ 0.1520
05/21/12	06/22/12	$ 0.1350	$ 0.0000	$ 0.0000	$ 0.1350
05/19/11	05/31/11	$ 0.0080	$ 0.0000	$ 0.0000	$ 0.0080
12/31/10	01/28/11**	$ 0.0450	$ 0.0000	$ 0.0000	$ 0.0450
04/30/10	05/10/10	$ 0.0103	$ 0.0000	$ 0.0000	$ 0.0103
12/31/09	01/28/10**	$ 0.0996	$ 0.0000	$ 0.0000	$ 0.0996
05/11/09	06/05/09	$ 0.2340	$ 0.0000	$ 0.0000	$ 0.2340
05/06/08	05/15/08	$ 0.0000	$ 0.1235	$ 0.4030	$ 0.5265
12/21/07	12/31/07	$ 0.0000	$ 0.0000	$ 1.0000	$ 1.0000
05/03/07	05/15/07	$ 0.2500	$ 0.0000	$ 0.0000	$ 0.2500
12/21/06	12/28/06	$ 0.2900	$ 0.0000	$ 0.0000	$ 0.2900
05/05/06	05/15/06	$ 0.0900	$ 0.0000	$ 0.0000	$ 0.0900
12/22/05	12/30/05	$ 0.0600	$ 0.0000	$ 0.0000	$ 0.0600
12/22/04	12/31/04	$ 0.0250	$ 0.0000	$ 0.0000	$ 0.0250
05/06/04	05/14/04	$ 0.0390	$ 0.0000	$ 0.0000	$ 0.0390
11/19/02	11/29/02	$ 0.0100	$ 0.0000	$ 0.0000	$ 0.0100
11/19/01	11/29/01	$ 0.0600	$ 0.0000	$ 0.0000	$ 0.0600
09/03/01	09/17/01	$ 0.0000	$ 0.0000	$ 0.0200	$ 0.0200

* This Fund posts estimated capital gain information to its web site: www.dws-investments.com.
** Although this distribution was payable in January, it may have been taxable in the prior year.

SECTOR DIVERSIFICATION AS OF DECEMBER 31, 2012 (As a % of Equity Securities)

10 LARGEST EQUITY HOLDINGS AS OF DECEMBER 31, 2012 (30.6%, as a % of Net Assets)

1.	Banco Santander (Spain)	3.5%
2.	Allianz (Germany)	3.4%
3.	Alstom (France)	3.1%
4.	Bayer (Germany)	3.1%
5.	Fresenius SE & Co. (Germany)	3.0%
6.	SES (Luxembourg)	3.0%
7.	Beiersdorf (Germany)	2.9%
8.	Volkswagen (Germany)	2.9%
9.	SAP (Germany)	2.9%
10.	Sanofi (France)	2.8%

Portfolio by Market Sector and 10 Largest Equity Holdings are subject to change and not indicative of future portfolio composition.

For more complete details about the Fund's Schedule of Investments, see page 13.

Following the Fund's fiscal first and third quarter-ends, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form is available on the SEC's web site at www.sec.gov, and it may also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. A complete list of the Fund's portfolio holdings and the Fund's sector breakdown compared to that of its benchmark as of the month end is posted on www.dws-investments.com on or after the last day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

INTERVIEW WITH PORTFOLIO MANAGEMENT TEAM — RAINER VERMEHREN AND

GERD KIRSTEN

Question: What chances do you see for a European recovery in 2013?

Answer: Based strictly on GDP forecasts, we expect that the impact of fiscal tightening on Eurozone countries will be less severe in 2013 than it was in 2012.1,2 Germany, specifically, saw GDP growth of 0.5% in 2012, and our current expectations are for a repeat of this growth at a minimum. In 2012 we saw the European equity market perform much better than what the periodic economic news releases would imply, indicating that the first few confident investors were returning to the European market. We see the market in 2013 going through several stages, carried by a broader investor base. Currently there is a growing recognition among investors that the tide has turned — for equities in general and for Europe in particular — suggesting a capitulation by the Eurozone critics. The recent strengthening of the euro is the first sign of this, as is the evidence that the movement of funds into euro safe havens has peaked (Norway and Denmark, traditionally defensive markets, are seeing outflows). Traditionally, following an initial run-up, there has been a period where the market "treads water" as selling by old money is absorbed by new and market rotation takes place. Already, the shift away from low-risk, high-quality stocks has accelerated in all market segments, with the partial exception of the commodity-sensitive stocks. Finally, a correction would be expected to follow, but the new volatility regime implies that the correction should be neither severe nor prolonged.

Question: What stage of the "Economic Style Cycle" are equity markets currently in?

Answer: The Economic Style Cycle comprises four stages, each defined by a certain phase of economic growth: 1. boom, 2. slowdown, 3. recession and 4. recovery. In the boom stage, growth is rising and accelerating; in a slowdown, it is rising and decelerating; in a recession, it is falling and decelerating, and in a recovery, growth may still be negative, but improving. Correctly identifying what stage the economy is going through will be a determining factor in deciding what to own in the portfolio. We believe the Eurozone market is moving from a recessionary into a recovery phase. Given this assessment that the market is entering a period of recovery, we want to overweight more

attractively priced stocks with rising momentum and we would move down the quality and market cap scales.[3]

Question: Which sectors offer the most promise?

Answer: Our strongest sector overweights include consumer discretionary and health care, funded mostly by underweights in consumer staples and utilities.[4,5] We recently increased our consumer discretionary sector overweight by adding three new names: Adidas, Bayerische Motoren Werke (BMW) and Vivendi. Adidas benefits from reaccelerating Asian consumption and a gross margin that is improving due to pricing on the strength of the brand. BMW is once again outperforming most of its competitors with an especially strong showing in China, and the stock boasts a high and stable dividend that is supported by a large cash pile and an impressive ability of cash generation. Vivendi offers a turnaround story. Its corporate restructuring is accelerating and we expect that divestitures will unlock its conglomerate discount. Negative trends in its media business are starting to turn. The stock scores highly based on value criteria. Our overweight in the health care sector is characterized by a preference for device and services companies that display defensive characteristics and an avoidance of pharmaceuticals that are plagued by regulatory and pricing issues.

1 Gross domestic product (GDP) is the monetary value of goods and services produced within a country's borders in a specific time frame.
2 The Eurozone refers to a currency union among the European Union member states that have adopted the euro as their sole currency.
3 "Overweight" means the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the Fund holds a lower weighting.
4 The consumer discretionary sector represents industries that produce goods and services that are not necessities in everyday life.
5 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs, and household products.

DIRECTORS OF THE FUND

Name, Address, Age*	Term of Office and Length of Time Served†	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Dr. Wilhelm Bender, 68(1)	Class I Since 2013	Senior Advisor of Advent International GmbH (private equity) (since 2009), of Norton Rose LLP (legal services) (since 2010) and of Leonardo & Co. GmbH (financial advisory) (since 2012), and Chairman of the Supervisory Boards of Bombardier Transportation GmbH (railways) (since 2010) and Eintracht Frankfurt Fußball AG (soccer club) (since 2010), and a member of Supervisory Boards of MTU AG (aircraft engines) (since 2008) and Lufthansa Cargo AG (air freight) (since 2008). He is also a member of the Advisory Boards of Deutsche Bank AG (since 1993) and IVG AG (since 2007) and holds a number of honorary positions including Honorary Professor of the Johann Wolfgang Goethe University in Frankfurt (since 2008). He is the former Chairman of the Executive Board (CEO) of Fraport AG, Germany (aviation industry) (1993-2009).	Director, The Central Europe and Russia Fund, Inc. (since 2013) and The New Germany Fund, Inc. (since 2013).

7

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Term of Office and Length of	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director

	Time Served†		
Detlef Bierbaum, 70(1)	Class I Since 1986	Consultant (since 2010). He is also Vice Chairman of the Supervisory Board of Oppenheim KAG GmbH (asset management) and a member of the Supervisory Board of Deutsche Bank Österreich AG (private bank) for more than five years. Mr. Bierbaum also serves as a member of the Board or Supervisory Board of a number of non-U.S. investment companies and of companies in diverse businesses including insurance, reinsurance, real estate, and retailing. He is a former member of the Supervisory Board of Sal. Oppenheim Jr. & Cie. KGaA (private bank) (2008 to March 2010) and was formerly a partner of that firm. He is also a former member of the Supervisory Board of DWS Investment GmbH (asset management) (2005-2008).	Director, The Central Europe and Russia Fund, Inc. (since 1990) and The New Germany Fund, Inc. (since 2008).
Ambassador Richard R. Burt, 65(1)	Class II Since 2000	Managing Director, McLarty Associates (international strategic advisory) (since 2007). Formerly, Chairman, Diligence, Inc. (international information and risk management firm) (2002-2007); Chairman of the Board, Weirton Steel Corp. (1996-2004); Partner, McKinsey & Company (consulting firm) (1991-1994); State Department, Chief Negotiator in charge of negotiating the Arms Treaty with Russia (1989-1991); U.S. Ambassador to the Federal Republic of Germany (1985-1989). Mr. Burt is also Director, IGT, Inc. (gaming technology) (since 1995), and HCL Technologies, Inc. (information technology and product engineering) (since 1999) and member, Textron Inc. International Advisory Council (aviation, automotive, industrial operations and finance) (since 1996).	Director, The Central Europe and Russia Fund, Inc. (since 2000) and The New Germany Fund, Inc. (since 2004). Director, UBS family of mutual funds (since 1995).

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Term of Office and Length of Time Served†	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Richard Karl Goeltz, 70(1)	Class III Since 2008	Retired. Formerly, Vice Chairman and Chief Financial Officer of American Express Co. (financial services) (1996-2000) and previously served as chief financial officer of two other major multi-national corporations. Mr Goeltz is a member of the Council and Court of Governors of the London School of Economics and Political Science, and Trustee of the American Academy in Berlin.	Director, The Central Europe and Russia Fund, Inc. (since 2008) and The New Germany Fund, Inc. (since 1990). Independent Non-Executive Director of Aviva plc (financial services) and The Warnaco Group Inc. (apparel). Formerly director of Federal Home Loan Mortgage Corporation and Delta Air Lines, Inc. (air transport).
Dr. Franz Wilhelm Hopp, 70(1)	Class III Since 2008	Partner of Laplace Finanzconsulting GmbH (asset management). Member of the Supervisory Board WAVE AG (asset management). Former member of the Board of Management of KarstadtQuelle Pension Trust e.V. (February 2007-September 2009).	Director, The Central Europe and Russia Fund, Inc. (since 2008) and The New Germany Fund, Inc. (since 1993).
Dr. Friedbert H. Malt, 71(1)	Class II Since 2007	Retired. Formerly, Vice Chairman and Member of the Executive Committee of NOL Neptune Orient Lines Ltd., Singapore ("NOL") from 2002 to 2011 and Director of NOL from 2000 to 2011. He currently is also a Director of TÜV Rheinland of North America, Inc., a company offering independent testing and assessment services. Formerly, Dr. Malt was a Member of the Executive Board of DG Bank (now DZ Bank), Frankfurt (until 2001).	Director, The Central Europe and Russia Fund, Inc. (since 2007) and The New Germany Fund, Inc. (since 2007).

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Term of Office and Length of Time Served†	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Christian H. Strenger, 69(1)(2)	Class III Since 1986	Member of Supervisory Board (since 1999) and formerly Managing Director (1991-1999) of DWS Investment GmbH (investment management), a subsidiary of Deutsche Bank AG. Mr. Strenger is also Member, Supervisory Board, Evonik Industries AG (chemical, utility and property business), Fraport AG (international airport business), Hermes Equity Ownership Services Ltd. (governance advisory) and TUI AG (travel business). He also is a member of the German Government's Commission on Corporate Governance and other corporate governance organizations, and serves as Director of the Center for Corporate Governance at the Leipzig Graduate School of Management.	Director and Chairman, The Central Europe and Russia Fund, Inc. (since 1990) and The New Germany Fund, Inc. (since 1990).
Robert H. Wadsworth, 72(1)(3)	Class I Since 1986	President, Robert H. Wadsworth Associates, Inc. (consulting firm) (1983-present).	Director, The Central Europe and Russia Fund, Inc. (since 1990) and The New Germany Fund, Inc. (since 1992), as well as other DWS funds.

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Term of Office	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director

	and Length of Time Served†		
Joachim Wagner, 65(1)	Class II Since 2009	Retired. Formerly, Chief Financial Officer, RAG Beteiligungs AG/Evonik Industries AG, Germany (mining holding company) (2006-2009) and Chief Financial Officer, Degussa AG, Germany (chemical manufacturer) (2001-2006). Mr. Wagner is also a member of the advisory board of a private German bank.	Director, The Central Europe and Russia Fund, Inc. (since 2012) and The New Germany Fund, Inc. (since 2009).

(1) Indicates that the Director also serves as a Director of The Central Europe and Russia Fund, Inc. and The New Germany Fund, Inc., two other closed-end registered investment companies for which Deutsche Investment Management Americas Inc. acts as Administrator and Deutsche Asset Management International GmbH acts as Investment Adviser. Dr. Bender's directorships begin as of January 1, 2013.
(2) Indicates "interested" Director, as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). Mr. Strenger is an "interested" Director because of his affiliation with DWS-Deutsche Gesellschaft für Werpapiersparen mbH ("DWS"), an indirect wholly-owned subsidiary of Deutsche Bank AG, and because of this ownership of Deutsche Bank AG shares.
(3) Indicates that Mr. Wadsworth also serves as Director/Trustee of the DWS Investments' open-end and closed-end investment companies. These Funds are advised by Deutsche Investment Management Americas Inc., an indirect wholly-owned subsidiary of Deutsche Bank AG.
* The address of each Director is c/o Deutsche Investment Management Americas Inc., 345 Park Avenue, NYC 20-2799, New York, NY 10154.
† The term of office for Directors in Class I expires at the 2015 Annual Meeting, Class II expires at the 2013 Annual Meeting and Class III expires at the 2014 Annual Meeting.

OFFICERS OF THE FUND*

Name, Age	Principal Occupations During Past Five Years
W. Douglas Beck, CFA(1,2), 45 President and Chief Executive Officer	Managing Director(3), Deutsche Asset & Wealth Management (since 2006); President of DWS family of funds and Head of Product Management, US for DWS Investments. Formerly, Executive Director, Head of Product Management (2002-2006) and President (2005-2006) of the UBS Funds at UBS Global Asset Management; Co-Head of Manager Research/Managed Solutions Group, Merrill Lynch (1998-2002).
Paul H. Schubert(2,4),	Managing Director(3), Deutsche Asset & Wealth Management (since 2004). Formerly, Executive Director, Head of Mutual Fund Services and

49 Chief Financial Officer and Treasurer	Treasurer for UBS Family of Funds at UBS Global Asset Management (1998-2004).
Rainer Vermehren(5,6), 44 Vice President	Director(3), DWS Investment GmbH (since 2007). Fund Manager, DWS Investment GmbH (since 1997).
Melinda Morrow(2,7), 42 Vice President	Director(3), Deutsche Asset & Wealth Management.
John Millette(8,9), 50 Secretary	Director(3), Deutsche Asset & Wealth Management (since 2002).
Caroline Pearson(9,10), 50 Chief Legal Officer	Managing Director(3), Deutsche Asset & Wealth Management. Formerly, Assistant Secretary for DWS family of funds (1997-2010).
Alexis Kuchinsky(2,11), 36 Chief Compliance Officer	Vice President, Deutsche Asset & Wealth Management (since 2002); Head of Compliance Program Oversight of Deutsche Asset & Wealth Management.
John Caruso(2,5), 47 Anti-Money Laundering Compliance Officer	Managing Director(3), Deutsche Asset & Wealth Management.

Each also serves as an Officer of The Central Europe and Russia Fund, Inc. and The New Germany Fund, Inc., two other closed-end registered investment companies for which Deutsche Investment Management Americas Inc. acts as Administrator.

* As a result of their respective positions held with the Administrator, these individuals are considered "interested persons" of the Administrator within the meaning of the 1940 Act. Interested persons receive no compensation directly from the Fund.

(1) Since May 19, 2011.
(2) Address: 60 Wall Street, New York, New York 10005.
(3) Executive title, not a board directorship.
(4) Since November 5, 2004.
(5) Since February 1, 2010.
(6) Address: Mainzer Landstraße 178-190, Frankfurt am Main, Germany.
(7) Since April 27, 2012.

(8) Since January 1, 2011. Served as Assistant Secretary from July 14, 2006 to December 31, 2010 and as Secretary to the Fund from January 30, 2006 to July 13, 2006.
(9) Address: One Beacon Street, Boston, Massachusetts 02108.
(10) Since May 21, 2012.
(11) Since August 24, 2009.

THE EUROPEAN EQUITY FUND, INC.

SCHEDULE OF INVESTMENTS — DECEMBER 31, 2012

Shares	Description	Value(a)
INVESTMENTS IN GERMANY – 38.2%		
	COMMON STOCKS – 32.2%	
	AIRLINES – 2.2%	
90,000	Deutsche Lufthansa	$ 1,689,918
	AUTO COMPONENTS – 1.3%	
9,000	Continental	1,039,465
	CHEMICALS – 2.4%	
20,000	BASF	1,876,368
	HEALTH CARE PROVIDERS & SERVICES – 3.0%	
20,000	Fresenius SE & Co.	2,297,001
	INDUSTRIAL CONGLOMERATES – 1.4%	
10,000	Siemens	1,083,889
	INSURANCE – 3.4%	
19,000	Allianz	2,625,596
	INTERNET SOFTWARE & SERVICES – 0.6%	
21,727	United Internet	467,269
	MEDIA – 2.2%	
40,000	Axel Springer	1,702,840
	METALS & MINING – 2.6%	
28,000	Aurubis	1,987,816
	PERSONAL PRODUCTS – 2.9%	
28,000	Beiersdorf	2,284,659
	PHARMACEUTICALS – 3.1%	
25,000	Bayer	2,369,854
	SOFTWARE – 4.1%	
45,000	PSI	914,087

28,000	SAP	2,240,723
		3,154,810
	SPECIALTY RETAIL – 2.0%	
16,000	Fielmann	1,540,125
	TEXTILES, APPAREL & LUXURY GOODS – 1.0%	
9,000	Adidas	799,032
	Total Common Stocks (cost $21,431,499)	24,918,642
Shares	Description	Value(a)
	PREFERRED STOCKS – 6.0%	
	AUTOMOBILES – 5.1%	
26,000	Bayerische Motoren Werke (cost $1,569,843)	$ 1,671,497
10,000	Volkswagen (cost $951,062)	2,269,970
		3,941,467
	HOUSEHOLD PRODUCTS – 0.9%	
9,000	Henkel & Co. (cost $341,121)	738,152
	Total Preferred Stocks (cost $2,862,026)	4,679,619
	Total Investments in Germany (cost $24,293,525)	29,598,261
INVESTMENTS IN FRANCE – 20.2%		
	BUILDING PRODUCTS – 1.5%	
28,000	Cie de St-Gobain	1,189,588
	COMMERCIAL SERVICES & SUPPLIES – 2.3%	
15,000	Societe BIC	1,786,439
	DIVERSIFIED TELECOMMUNICATION SERVICES – 2.3%	
80,000	Vivendi	1,788,022
	ELECTRICAL EQUIPMENT – 3.1%	
60,000	Alstom	2,384,161
	HEALTH CARE EQUIPMENT & SUPPLIES – 1.9%	
15,000	Essilor International	1,503,599
	INSURANCE – 2.7%	
120,000	AXA	2,112,397
	IT SERVICES – 1.9%	
21,000	AtoS	1,463,725
	PHARMACEUTICALS – 2.8%	
23,000	Sanofi	2,165,102
	TEXTILES, APPAREL & LUXURY GOODS – 1.7%	
7,000	LVMH Moet Hennessy Louis Vuitton	1,281,152

	Total Investments in France (cost $13,543,985)	15,674,185

The accompanying notes are an integral part of the financial statements.

THE EUROPEAN EQUITY FUND, INC.

SCHEDULE OF INVESTMENTS — DECEMBER 31, 2012 (continued)

Shares	Description	Value(a)
INVESTMENTS IN SPAIN – 9.4%		
	COMMERCIAL BANKS – 3.6%	
342,000	Banco Santander	$ 2,750,863
	DIVERSIFIED TELECOMMUNICATION SERVICES – 1.7%	
100,000	Telefonica	1,343,653
	INSURANCE – 2.1%	
540,000	Mapfre	1,648,382
	OIL, GAS & CONSUMABLE FUELS – 2.0%	
76,000	Repsol YPF	1,536,776
	Total Investments in Spain (cost $6,754,203)	7,279,674
INVESTMENTS IN NETHERLANDS – 7.4%		
	CHEMICALS – 1.4%	
18,000	Koninklijke DSM	1,086,816
	COMPUTERS & PERIPHERALS – 1.0%	
9,000	Gemalto	806,983
	DIVERSIFIED FINANCIAL SERVICES – 1.5%	
120,000	ING Groep*	1,117,276
	FOOD PRODUCTS – 2.4%	
22,000	Nutreco	1,859,490
	SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT – 1.1%	
13,090	ASML Holding	828,503
	Total Investments in Netherlands	5,699,068

	(cost $5,048,357)	
INVESTMENTS IN UNITED KINGDOM – 5.1%		
	HEALTH CARE EQUIPMENT & SUPPLIES – 2.3%	
160,000	Smith & Nephew	1,765,939
	MULTI-UTILITIES – 1.0%	
140,000	Centrica	758,613
Shares	Description	Value(a)
	WIRELESS TELECOMMUNICATION SERVICES – 1.8%	
580,000	Vodafone Group	$ 1,455,064
	Total Investments in United Kingdom (cost $3,892,533)	3,979,616
INVESTMENTS IN ITALY – 4.9%		
	COMMERCIAL BANKS – 3.0%	
1,000,000	Intesa Sanpaolo	1,714,180
130,000	UniCredit*	635,275
		2,349,455
	OIL, GAS & CONSUMABLE FUELS – 1.9%	
60,000	Eni	1,450,988
	Total Investments in Italy (cost $3,541,721)	3,800,443
INVESTMENTS IN NORWAY – 4.5%		
	CHEMICALS – 1.5%	
23,000	Yara International	1,130,775
	ENERGY EQUIPMENT & SERVICES – 3.0%	
24,000	Fred Olsen Energy	1,042,035
40,000	TGS Nopec Geophysical	1,303,622
		2,345,657
	Total Investments in Norway (cost $2,888,068)	3,476,432
INVESTMENTS IN LUXEMBOURG – 3.0%		
	MEDIA – 3.0%	
80,000	SES	2,289,617
	Total Investments in Luxembourg	2,289,617

	(cost $2,097,894)	
INVESTMENTS IN FINLAND – 2.3%		
	INSURANCE – 2.3%	
56,000	Sampo	1,797,305
	Total Investments in Finland (cost $1,417,010)	1,797,305

The accompanying notes are an integral part of the financial statements.

THE EUROPEAN EQUITY FUND, INC.

SCHEDULE OF INVESTMENTS — DECEMBER 31, 2012 (continued)

Shares	Description	Value(a)
INVESTMENTS IN AUSTRIA – 2.2%		
	COMMERCIAL BANKS – 0.7%	
13,000	Raiffeisen Bank International	$ 539,195
	MACHINERY – 1.5%	
18,000	Andritz	1,152,087
	Total Investments in Austria (cost $1,323,408)	1,691,282
INVESTMENTS IN SWITZERLAND – 1.3%		
	CHEMICALS – 1.3%	
2,500	Syngenta	1,001,311
	Total Investments in Switzerland (cost $834,335)	1,001,311
INVESTMENTS IN DENMARK – 1.1%		
	CONSTRUCTION & ENGINEERING – 1.1%	
15,000	FLSmidth & Co.	867,322
	Total Investments in Denmark (cost $1,140,720)	867,322
	Total Investments in Common and Preferred Stocks – 99.6% (cost $66,775,759)	77,154,516

CASH EQUIVALENTS – 1.6%		
	Central Cash Management Fund, 0.15%	
1,255,571	(cost $1,255,571)(b)	1,255,571
	Total Investments – 101.2% (cost $68,031,330)**	78,410,087
	Other Assets and Liabilities, Net – (1.2%)	(898,783)
	NET ASSETS – 100.0%	$77,511,304

* Non-income producing security.

** The cost for federal income tax purposes was $68,031,333. At December 31, 2012, net unrealized appreciation for all securities based on tax cost was $10,378,754. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $12,598,711 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,219,957.

(a) Value stated in U.S. dollars.

(b) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

For purposes of its industry concentration policy, the Fund classifies issuers of portfolio securities at thte industry sub-group level. Certain of the categories in the above Schedule of Investments consist of multiple industry sub-groups or industries.

The accompanying notes are an integral part of the financial statements.

THE EUROPEAN EQUITY FUND, INC.

SCHEDULE OF INVESTMENTS — DECEMBER 31, 2012 (continued)

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2012 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note 1 in the accompanying Notes to Financial Statements.

Category	Level 1	Level 2	Level 3	Total
Common Stocks and/or Other Equity Investments(1)				

Germany	$29,598,261	$ —	$ —	$29,598,261
France	15,674,185	—	—	15,674,185
Spain	7,279,674	—	—	7,279,674
Netherlands	5,699,068	—	—	5,699,068
United Kingdom	3,979,616	—	—	3,979,616
Italy	3,800,443	—	—	3,800,443
Norway	3,476,432	—	—	3,476,432
Luxembourg	2,289,617	—	—	2,289,617
Finland	1,797,305	—	—	1,797,305
Austria	1,691,282	—	—	1,691,282
Switzerland	1,001,311	—	—	1,001,311
Denmark	867,322	—	—	867,322
Short-Term Instruments	1,255,571	—	—	1,255,571
Total	$78,410,087	$ —	$ —	$78,410,087

There have been no transfers between fair value measurement levels during the year ended December 31, 2012.

(1) See Schedule of Investments for additional detailed categorizations.

The accompanying notes are an integral part of the financial statements.

THE EUROPEAN EQUITY FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES

DECEMBER 31, 2012

ASSETS	
Investments in non-affiliated securities, at value (cost $66,775,759)	$ 77,154,516
Investment in Central Cash Management Fund (cost $1,255,571)	1,255,571
Total Investments, at value (cost $68,031,330)	78,410,087
Cash	12,863
Foreign currency, at value (cost $672,956)	688,090
Receivable for investments sold	48,306
Dividends receivable	30,806
Interest receivable	2,254
Foreign taxes recoverable	21,130
Other assets	9,458
Total assets	79,222,994
LIABILITIES	
Payable for fund shares repurchased	8,293
Distributions payable	1,504,124
Investment advisory fee payable	49,690

Fund administration fee payable	13,315
Payable for Directors' fees and expenses	7,993
Accrued expenses and other liabilities	128,275
Total liabilities	1,711,690
NET ASSETS	$ 77,511,304
Net assets consist of:	
Paid-in capital, $0.001 par (Authorized 80,000,000 shares)	$164,661,423
Cost of 6,954,911 shares held in Treasury	(56,135,958)
Undistributed net investment income	—
Accumulated net realized loss	(41,408,576)
Net unrealized appreciation (depreciation) on:	
Investments	10,378,757
Foreign currency	15,658
Net assets	$ 77,511,304
Net assets value per share ($77,511,304 ÷ 9,894,365 shares of common stock issued and outstanding)	$ 7.83

The accompanying notes are an integral part of the financial statements.

THE EUROPEAN EQUITY FUND, INC.

STATEMENT OF OPERATIONS

	For the year ended December 31, 2012
NET INVESTMENT INCOME	
Income:	
Dividends (net of foreign withholding taxes of $362,931)	$ 2,311,923
Interest	92
Income distributions — Central Cash Management Fund	956
Securities lending, including income from Daily Assets Fund Institutional, net of borrower rebates	222,415
Total investment income	2,535,386
Expenses:	
Management fee	39,899
Investment advisory fee	549,832
Fund administration fee	137,909
Custodian fee	53,932
Services to shareholders	22,211
Reports to shareholders	119,426
Directors' fees and expenses	153,120
Legal fees	128,364

Audit and tax fees	71,718
NYSE listing fee	23,750
Insurance	9,513
Miscellaneous	32,043
Net expenses	1,341,717
Net investment income	1,193,669
REALIZED AND UNREALIZED GAIN (LOSS)	
Net realized gain (loss) from:	
Investments	4,040,321
Foreign currency	48,286
Futures	(889,291)
Net realized gain (loss)	3,199,316
Change in net unrealized appreciation (depreciation) on:	
Investments	9,618,976
Foreign currency	22,660
Futures	(97,358)
Change in net unrealized appreciation (depreciation)	9,544,278
Net gain (loss)	12,743,594
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	$13,937,263

The accompanying notes are an integral part of the financial statements.

THE EUROPEAN EQUITY FUND, INC.

STATEMENT OF CHANGES IN NET ASSETS

	For the year ended December 31, 2012	For the year ended December 31, 2011
INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net investment income	$ 1,193,669	$ 1,235,947
Net realized gain (loss)	3,199,316	(244,299)
Change in net unrealized appreciation (depreciation)	9,544,278	(16,140,582)
Net increase (decrease) in net assets resulting from operations	13,937,263	(15,148,934)
Distributions to shareholders from:		
Net investment income	(2,923,172)	(86,521)
Capital share transactions:		
Net proceeds from reinvestment of dividends (72,390 and 0 shares, respectively)	435,064	—
Cost of shares tendered (529,026 and 574,974 shares, respectively)	(3,745,504)	(4,956,276)
Cost of shares repurchased (328,667 and 244,836 shares, respectively)	(2,212,885)	(1,867,659)
Net decrease in net assets from capital share transactions	(5,523,325)	(6,823,935)

Total increase (decrease) in net assets	5,490,766	(22,059,390)
NET ASSETS		
Beginning of year	72,020,538	94,079,928
End of year (including undistributed net investment income of $0 and $1,371,328, as of December 31, 2012 and December 31, 2011, respectively)	$77,511,304	$ 72,020,538

The accompanying notes are an integral part of the financial statements.

19

THE EUROPEAN EQUITY FUND, INC.

FINANCIAL HIGHLIGHTS

Selected data for a share of common stock outstanding throughout each of the years indicated:

	For the years ended December 31,				
	2012	2011	2010	2009	2008
Per share operating performance:					
Net asset value:					
Beginning of year	$ 6.74	$ 8.18	$ 8.08	$ 6.38	$ 13.52
Net investment income(a)	.12	.11	.07	.11	.25
Net realized and unrealized gains (loss) on investments and foreign currency	1.23	(1.57)	.06	1.92	(6.87)
Increase (decrease) from investment operations	1.35	(1.46)	.13	2.03	

- 1 NASCAR K&N Pro Series East event.

In 2015, we are scheduled to promote these same six events at Dover International Speedway. Total revenues from these events were approximately 97%, 97% and 96% of total revenues for 2014, 2013 and 2012, respectively.

We have hosted the Firefly Music Festival on our property in Dover, Delaware for three consecutive years. The inaugural three day festival with 40 musical acts was held in July 2012, followed by a three day festival in June 2013 with over 70 musical acts and an expanded four day festival in June 2014 with over 100 musical acts. The promoter of the event, Red Frog Events LLC has announced that the event will return to Dover on June 18-21, 2015. In September 2014, Red Frog

Events formed RFGV Festivals LLC - a joint venture with Goldenvoice that will promote Firefly. Goldenvoice is owned by AEG Live, one of the world s largest presenters of live music and entertainment events. We entered into an amended agreement with RFGV Festivals granting them two 5 year options to extend our facility rental agreement through 2032 (from its original expiration date of 2022) in exchange for a rental commitment to secure our property for up to two festivals per year. Rent is at differing rates depending on how many events are actually held. In December 2014, we announced that the inaugural Big Barrel Country Music Festival will be held at our facility on June 26-28, 2015. The three day festival will be promoted by RFGV Festivals and will feature an estimated 50 musical acts. We also receive a percentage of the concession sales we manage at the events.

Nashville Superspeedway no longer promotes NASCAR events and has not entered into sanction agreements with NASCAR since 2011. We currently use the facility on a limited basis for motorsports track rentals. On May 29, 2014, we entered into a definitive agreement to sell the facility to NeXovation, Inc. for $27 million in cash and the assumption by NeXovation, Inc. of obligations of ours under certain Variable Rate Tax Exempt Infrastructure Revenue Bonds. The sales agreement has been amended several times extending the closing date. In consideration for these amendments, during 2014 we received $1.7 million in non-refundable deposits from the buyer which will be applied against the purchase price at closing. These deposits are included in accrued liabilities at December 31, 2014 in our consolidated balance sheets. Additionally, in 2015 we received $400,000 to amend the agreement which will not be applied against the purchase price. The sale is now scheduled to close by the end of the first quarter of 2015. Our gain will be the $27 million purchase price less the facility s $26 million carrying value and less any costs to sell which are expected to be minimal and consist primarily of legal fees. We also expect to pay income taxes of approximately $4.5-5.0 million as a result of this transaction. As a result of the expected sale, the assets of Nashville Superspeedway are reported as assets held for sale in our consolidated balance sheet at December 31, 2014. We incurred a non-cash pre-tax impairment charge of $4,329,000 in the fourth quarter of 2013 relating to the Nashville facility as a result of economic conditions and their impact on real estate values (see NOTE 3 Impairment Charge for further discussion). In 2011 we recorded a $2,250,000 provision for contingent obligation reflecting the present value of the estimated portion of the revenue bonds debt service that may not be covered by the projected sales and incremental property taxes from the facility (see NOTE 12 Commitments and

Contingencies for further discussion). Due to changing interest rates, the provision for contingent obligation decreased by $30,000, $91,000 and $316,000, net, in 2014, 2013 and 2012, respectively, and is $1,813,000 at December 31, 2014. Upon completion of the sale of the assets of Nashville Superspeedway, we will reverse the contingent obligation which will increase our pre-tax earnings by the amount of the obligation at the time it is reversed. See NOTE 12 Commitments and Contingencies for further discussion.

NOTE 2 Summary of Significant Accounting Policies

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

Investments Investments, which consist of mutual funds, are classified as available-for-sale and reported at fair-value in other assets in our consolidated balance sheets. Changes in fair value are reported in other comprehensive income. See NOTE 8 Pension Plans, NOTE 9 Stockholders Equity and NOTE 10 Fair Value Measurements for further discussion.

Accounts receivable Accounts receivable are stated at their estimated collectible amount and do not bear interest.

Inventories Inventories of items for resale 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

Impairment of long-lived assets Long-lived assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. Generally, fair value is determined using valuation techniques such as the comparable sales approach based on either independent third party appraisals or pending/completed sales transactions. See NOTE 3 Impairment Charge for further discussion.

Income taxes Deferred income taxes are provided on all differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements based upon enacted statutory tax rates in effect at the balance sheet date. We record a valuation allowance to reduce our deferred tax assets when uncertainty regarding their realizability exists. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. As of December 31, 2014, our valuation allowance on state net operating loss carry-forwards net of federal income taxes was $10,404,000, which increased by $44,000 in 2014. These state net operating losses are related to our Midwest facilities that have not produced taxable income. Valuation allowances fully reserve the state net operating loss carryforwards, net of federal tax benefit.

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

Revenues pertaining to specific events are deferred until the event is held. Concession and souvenir revenues are recorded at the time of sale. Revenues and related expenses from barter transactions in which we provide advertising or other goods or services in exchange for sponsorships of motorsports events are recorded at fair value. Barter transactions accounted for $550,000, $477,000 and $424,000 of total revenues for the years ended December 31, 2014, 2013 and 2012, respectively.

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

Expense recognition The cost of non-event related advertising, promotion and marketing programs is expensed as incurred. Certain direct expenses pertaining to specific events, including prize and point fund monies and sanction fees paid to NASCAR, a majority of our marketing expenses and other expenses associated with the promotion of our racing events are deferred until the event is held, at which point they are expensed. Advertising expenses were $1,191,000, $1,160,000 and $1,093,000 in 2014, 2013 and 2012, respectively.

Net earnings per common share Nonvested share-based payment awards that include rights to dividends or dividend equivalents, whether paid or unpaid, are considered participating securities, and the two-class method of computing basic and diluted net earnings per common share (EPS) is applied for all periods presented. The following table sets forth the computation of EPS (in thousands, except per share amounts):

	2014	2013	2012
Net earnings per common share basic:			

Net earnings	$	3,145	$	2,024	$	4,571
Allocation to nonvested restricted stock awards		50		33		67
Net earnings available to common stockholders	$	3,095	$	1,991	$	4,504
Weighted-average shares outstanding		36,047		36,252		36,299
Net earnings per common share basic	$	0.09	$	0.05	$	0.12
Net earnings per common share diluted:						
Net earnings	$	3,145	$	2,024	$	4,571
Allocation to nonvested restricted stock awards		50		33		67
Net earnings available to common stockholders	$	3,095	$	1,991	$	4,504
Weighted-average shares and dilutive shares outstanding		36,047		36,252		36,299
Net earnings per common share diluted	$	0.09	$	0.05	$	0.12

There were no options outstanding in 2014, 2013 or 2012.

Accounting for stock-based compensation We recorded total stock-based compensation expense for our restricted stock awards of $278,000, $291,000 and $313,000 as general and administrative expenses for the years ended December 31, 2014, 2013 and 2012, respectively. We recorded income tax benefits (expense) of $113,000, $56,000 and ($4,000) for the years ended December 31, 2014, 2013 and 2012, respectively, related to our restricted stock awards.

Use of estimates The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, disclosures about contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on our best estimates and judgment. We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which we believe to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Volatility in credit and equity markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

NOTE 3 Impairment Charge

Impairment Charge Recorded in 2013

Based upon the economic conditions that existed in the fourth quarter of 2013 and their impact on real estate values at that time, we concluded that it was necessary for us to review the carrying value of the long-lived assets at Nashville for impairment. The Nashville assets recorded on our consolidated balance sheets consist exclusively of land. The recoverability of assets to be held and used was measured by a comparison of the carrying amount of the assets to the estimated undiscounted future cash flows expected to result from the use and eventual disposition of the assets. As a result of the recoverability test, we concluded that the carrying amount of our Nashville facility exceeded the undiscounted cash flows.

Since the carrying amount of the assets exceeded the fair value, an impairment charge was recognized by the amount by which the carrying amount of the assets exceeded the fair value. Fair value of the assets for the Nashville facility was determined based on the value of owned real estate at the facility. The long-lived assets deemed to be impaired consisted of land.

Based on the results of this analysis, we recorded a non-cash pre-tax impairment charge in the fourth quarter of 2013 to write-down the carrying value of long-lived assets at our Nashville facility to fair value, as follows:

	Carrying Value of Long-Lived Assets	Fair Value of Long-Lived Assets	Non-Cash Impairment Charges
Nashville facility	$ 30,329,000	$ 26,000,000	$ 4,329,000

NOTE 4 Property and Equipment

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

	2014	2013
Land	$ 15,916,000	$ 41,916,000
Facilities	80,721,000	85,349,000
Furniture, fixtures and equipment	7,137,000	6,955,000
Construction in progress	3,545,000	
	107,319,000	134,220,000
Less accumulated depreciation	(49,083,000)	(48,629,000)
	$ 58,236,000	$ 85,591,000

Depreciation expense was $3,262,000, $3,291,000 and $3,314,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

In 2014, we removed certain grandstand seating at our Dover International Speedway facility and have written off the remaining net book value of the assets of $2,045,000 which is reported in our consolidated statements of earnings as loss on disposal of long-lived assets. The cost to remove the grandstand seating of $358,000 is also included in loss on disposal of long-lived assets in our consolidated statements of earnings.

NOTE 5 Accrued Liabilities

Accrued liabilities consist of the following as of December 31:

	2014	2013
Payroll and related items	$ 446,000	$ 436,000
Real estate taxes	995,000	984,000
Pension	897,000	729,000
Non-refundable deposit on expected sale of facility	1,700,000	
Other	906,000	738,000
	$ 4,944,000	$ 2,887,000

NOTE 6 Long-Term Debt

At December 31, 2014, Dover Motorsports, Inc. and its wholly owned subsidiaries Dover International Speedway, Inc. and Nashville Speedway, USA, Inc., as co-borrowers had a $35,000,000 secured credit agreement with a bank group. The credit facility expires on July 31, 2017. Interest is based upon LIBOR plus a margin that varies between 125 and 175 basis points depending on the leverage ratio (150 basis points at December 31, 2014). The facility provides that we may elect to enter into a negative pledge with the bank group in exchange for the release of the security interest in the collateral securing the agreement. In the event we elect to enter into the negative pledge, interest will be based upon LIBOR plus a margin that varies between 150 and 200 basis points depending on the leverage ratio. The credit facility contains certain covenants including maximum funded debt to earnings before interest, taxes, depreciation and amortization (leverage ratio) and a minimum fixed charge coverage ratio. Material adverse changes in our results of operations could impact our ability to maintain financial ratios necessary to satisfy these requirements. In addition, the credit agreement includes a material adverse change clause and provides the lenders with a first lien on all of our assets. The credit facility also provides that if we default under any other loan agreement, that would be a default under this facility. At December 31, 2014, there was $10,760,000 outstanding under the credit facility at an interest rate of 1.66%. The credit facility provides for seasonal funding needs, capital improvements, letter of credit requirements and other general corporate purposes. At December 31, 2014, we were in compliance with the terms of the credit facility. After consideration of stand-by letters of credit outstanding, the remaining maximum borrowings available pursuant to the credit facility were $5,938,000 at December 31, 2014. We expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods during the next twelve months.

NOTE 7 Income Taxes

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

	Years ended December 31,		
	2014	**2013**	**2012**
Current:			
Federal	$ (2,273,000)	$ (1,869,000)	$ (136,000)
State	(744,000)	(892,000)	(866,000)
	(3,017,000)	(2,761,000)	(1,002,000)
Deferred:			
Federal	703,000	773,000	(2,520,000)
State	178,000	63,000	31,000
	881,000	836,000	(2,489,000)
Total income tax expense	$ (2,136,000)	$ (1,925,000)	$ (3,491,000)

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

	Years ended December 31, 2014	2013	2012
Federal tax at statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	6.1%	13.4%	6.9%
Valuation allowance	0.9%	0.1%	(0.4)%
Non-deductible stock based compensation		1.6%	1.6%
Other	(1.6)%	(1.4)%	0.2%
Effective income tax rate	40.4%	48.7%	43.3%

Deferred income tax assets and liabilities are comprised of the following as of December 31:

	2014	2013
Deferred income tax assets:		
Accruals not currently deductible for income taxes	$ 2,985,000	$ 1,846,000
Net operating loss carry-forwards	10,948,000	11,070,000
Total deferred income tax assets	13,933,000	12,916,000
Valuation allowance	(10,404,000)	(10,360,000)
Net deferred income tax assets	3,529,000	2,556,000
Deferred income tax liabilities:		
Depreciation	(18,033,000)	(19,070,000)
Total deferred income tax liabilities	(18,033,000)	(19,070,000)
Net deferred income tax liability	$ (14,504,000)	$ (16,514,000)
Amounts recognized in the consolidated balance sheets:		
	$ 79,000	$ 76,000

Current deferred income tax assets		
Noncurrent deferred income tax assets	580,000	336,000
Noncurrent deferred income tax liabilities	(15,163,000)	(16,926,000)
	$ (14,504,000)	$ (16,514,000)

Deferred income taxes relate to the temporary differences between financial accounting income and taxable income and are primarily attributable to differences between the book and tax basis of property and equipment and net operating loss carry-forwards (expiring through 2029). At December 31, 2014, we have available state net operating loss carryforwards of $218,307,000. Valuation allowances which fully reserve the state net operating loss carryforwards, net of federal tax benefit, increased (decreased) in 2014, 2013 and 2012 by $44,000, ($1,805,000) and ($24,000), respectively.

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

We file income tax returns with the Internal Revenue Service and the states in which we conduct business. We have identified the U.S. federal and state of Delaware as our major tax jurisdictions. As of December 31, 2014, tax years after 2010 remain open to examination for federal and Delaware income tax purposes.

NOTE 8 Pension Plans

We maintain a non-contributory tax qualified defined benefit pension plan that has been frozen since July 2011. All of our full time employees were eligible to participate in the qualified plan. Benefits provided by our qualified pension plan were based on years of service and employees remuneration over their employment period. Pension costs are funded in accordance with the provisions of the Internal Revenue Code. We also maintain a non-qualified, non-contributory defined benefit pension plan, the excess plan, for certain employees that has been frozen since July 2011. This excess plan provided benefits that would otherwise be provided under the qualified pension plan but for maximum benefit and compensation limits applicable under federal tax law. The cost associated with the excess plan is

determined using the same actuarial methods and assumptions as those used for our qualified pension plan. The assets for the excess plan aggregate $820,000 and $768,000 as of December 31, 2014 and 2013, respectively, and are recorded in other assets in our consolidated balance sheets (see NOTE 10 Fair Value Measurements).

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

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

	2014	2013
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 9,982,000	$ 10,736,000
Interest cost	491,000	443,000
Actuarial loss (gain)	3,002,000	(1,013,000)
Benefits paid	(206,000)	(182,000)
Other	4,000	(2,000)
Benefit obligation at end of year	13,273,000	9,982,000
Change in plan assets:		
Fair value of plan assets at beginning of year	7,797,000	7,024,000
Actual gain on plan assets	583,000	951,000
Employer contribution	40,000	
Benefits paid	(206,000)	(182,000)
Other	4,000	4,000
Fair value of plan assets at end	8,218,000	7,797,000

of year		
Unfunded status	$ (5,055,000)	$ (2,185,000)

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

	2014	2013
Accrued benefit cost	$ (897,000)	$ (729,000)
Liability for pension benefits	(4,158,000)	(1,456,000)
	$ (5,055,000)	$ (2,185,000)

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:

	2014	2013
Net actuarial loss, pre-tax	$ 5,710,000	$ 2,743,000

The accumulated benefit obligation for our pension plans was $13,273,000 and $9,982,000, respectively, as of December 31, 2014 and 2013.

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

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

	2014	2013	2012
Interest cost	$ 491,000	$ 443,000	$ 454,000
Expected return on plan assets	(612,000)	(552,000)	(508,000)
Recognized net actuarial loss	64,000	100,000	80,000
	$ (57,000)	$ (9,000)	$ 26,000

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

Actuarial loss	$ 123,000

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

	Net Periodic Pension Cost			Benefit Obligation	
	2014	2013	2012	2014	2013
Weighted-average discount rate	5.0%	4.4%	5.0%	4.1%	5.0%
Weighted-average rate of compensation increase	n/a	n/a	n/a	n/a	n/a
Expected long-term rate of return on plan assets	8.0%	8.0%	8.0%	n/a	n/a

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

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

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

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

Asset Category	**Total**	**Level 1**	**Level 2**	**Level 3**
Corporate common stocks	$ 838,000	$ 838,000	$	$
Mutual funds/ETFs:				
Equity-large cap	1,695,000	1,695,000		
Equity-mid cap	774,000	774,000		
Equity-small cap	165,000	165,000		
Equity-international	1,046,000	1,046,000		
Fixed income	3,065,000	3,065,000		
Real estate	439,000	439,000		
Money market	196,000	196,000		
Total mutual funds/ETFs	7,380,000	7,380,000		
Grand total	$ 8,218,000	$ 8,218,000	$	$

40

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

Asset Category	**Total**	**Level 1**	**Level 2**	**Level 3**
Corporate common stocks	$ 779,000	$ 779,000	$	$
Mutual funds/ETFs:				
Equity-large cap	1,583,000	1,583,000		
Equity-mid cap	721,000	721,000		
Equity-small cap	158,000	158,000		
Equity-international	1,086,000	1,086,000		
Fixed income	2,831,000	2,831,000		
Real estate	346,000	346,000		
Money market	293,000	293,000		
Total mutual funds/ETFs	7,018,000	7,018,000		
Grand total	$ 7,797,000	$ 7,797,000	$	$

We do not expect to contribute to our defined benefit pension plans in 2015.

Estimated future benefit payments are as follows:

2015	$ 1,250,000
2016	$ 400,000
2017	$ 412,000
2018	$ 460,000
2019	$ 497,000
2020-2024	$ 2,669,000

Effective December 1, 2012, we created a new non-elective, non-qualified supplemental executive retirement plan (SERP) in connection with the freezing of our pension plan. Its purpose is to provide deferred compensation to certain highly compensated employees that approximates the value of benefits lost by the freezing of the pension plan which are not offset by our enhanced matching contributions in our 401(k) plan. The SERP is a discretionary defined contribution plan and contributions made to the SERP in any given year are not guaranteed and will be at the sole discretion of our Compensation and Stock Incentive Committee. In 2014, 2013 and 2012, we recorded expenses of $73,000, $60,000 and $60,000, respectively, related to the SERP. During 2014, 2013 and 2012, we contributed $65,000, $55,000 and $0 to the plan, respectively. The liability for pension benefits was $73,000 and $65,000 as of December 31, 2014 and 2013, respectively.

We also maintain a defined contribution 401(k) plan that permits participation by substantially all employees. Our matching contributions to the 401(k) plan were $119,000, $110,000 and $108,000 in 2014, 2013 and 2012, respectively.

NOTE 9 Stockholders Equity

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

	Common Stock	Class A Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss
Balance at December 31, 2011	$ 1,828	$ 1,851	$ 101,888	$ (58,352)	$ (2,266)
Net earnings				4,571	
Dividends paid, $0.04 per share				(1,475)	
Issuance of restricted stock awards, net of forfeitures	10		(10)		
Stock-based compensation			313		
Repurchase and retirement of common stock	(2)		(25)		
Unrealized gain on available-for-sale securities, net of income tax expense of $19					27
Change in net actuarial loss and prior service cost, net of income tax benefit of $182					(265)
Balance at December 31, 2012	1,836	1,851	102,166	(55,256)	(2,504)
Net earnings				2,024	
Dividends paid, $0.05 per share				(1,831)	
Issuance of restricted stock awards, net of forfeitures	13		(13)		
Stock-based compensation			291		
Repurchase and retirement of common stock	(47)		(1,082)		
Unrealized gain on available-for-sale securities, net of					34

income tax expense of $23					
Change in net actuarial loss and prior service cost, net of income tax expense of $615					897
Balance at December 31, 2013	1,802	1,851	101,362	(55,063)	(1,573)
Net earnings				3,145	
Dividends paid, $0.05 per share				(1,831)	
Issuance of restricted stock awards, net of forfeitures	15		(15)		
Stock-based compensation			278		
Repurchase and retirement of common stock	(5)		(124)		
Unrealized gain on available-for-sale securities, net of income tax expense of $5					7
Change in net actuarial loss and prior service cost, net of income tax benefit of $1,206					(1,761)
Excess tax benefit on restricted stock			7		
Balance at December 31, 2014	$ 1,812	$ 1,851	$ 101,508	$ (53,749)	$ (3,327)

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

	2014	**2013**
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of $2,323,000 and $1,117,000, respectively	$ (3,387,000)	$ (1,626,000)
Accumulated unrealized gain on available-for-sale securities, net of income tax expense	60,000	53,000

of $43,000 and $38,000, respectively		
Accumulated other comprehensive loss	$ (3,327,000)	$ (1,573,000)

42

Holders of common stock have one vote per share and holders of Class A common stock have ten votes per share. There is no cumulative voting. Shares of Class A common stock are convertible at any time into shares of common stock on a share for share basis at the option of the holder thereof. Dividends on Class A common stock cannot exceed dividends on common stock on a per share basis. Dividends on common stock may be paid at a higher rate than dividends on Class A common stock. The terms and conditions of each issue of preferred stock are determined by our Board of Directors. No preferred shares have been issued.

We adopted a stockholder rights plan in 2006. The rights are attached to and trade in tandem with our common stock and Class A common stock. Each right entitles the registered holder to purchase from us one share of common stock. The rights, unless earlier redeemed by our Board of Directors, will detach and trade separately from our common stock upon the occurrence of certain events such as the unsolicited acquisition by a third party of beneficial ownership of 10% or more of our outstanding combined common stock and Class A common stock or the announcement by a third party of the intent to commence a tender or exchange offer for 10% or more of our outstanding combined common stock and Class A common stock. After the rights have detached, the holders of such rights would generally have the ability to purchase such number of either shares of our common stock or stock of an acquirer of ours having a market value equal to twice the exercise price of the right being exercised, thereby causing substantial dilution to a person or group of persons attempting to acquire control of us. The rights may serve as a significant deterrent to unsolicited attempts to acquire control of us, including transactions involving a premium to the market price of our stock. This rights agreement expires on June 13, 2016, unless earlier redeemed.

On July 28, 2004, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. During 2014 and 2013, we purchased and retired 13,950 and 442,526 shares of our outstanding common stock, respectively, at an average purchase price of $2.27 and $2.36 per share, respectively, not including nominal brokerage commissions. No purchases of our equity securities were made pursuant to this authorization during 2012. At December 31, 2014, we had remaining repurchase authority of 1,178,131 shares.

During the years ended December 31, 2014, 2013 and 2012, we purchased and retired 40,210, 33,950 and 23,779 shares of our outstanding common stock at an average purchase price of $2.41, $1.80 and $1.16 per share, respectively. These purchases were made from employees in connection with the vesting of restricted stock awards under our 2004 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 had a stock incentive plan, adopted in 2004, which provided for the grant of up to 1,500,000 shares of common stock to our officers and key employees through stock options and/or awards valued in whole or in part by reference to our common stock, such as nonvested restricted stock awards. Under the plan, nonvested restricted stock vests an aggregate of twenty percent each year beginning on the second anniversary date of the grant. The aggregate market value of the nonvested restricted stock at the date of issuance is being amortized on a straight-line basis over the six-year period. We granted 151,000 and 153,000 stock awards under this plan during 2014 and 2013, respectively. This plan expired on January 27, 2014; therefore, no further grants of stock options or stock awards can be made under this plan.

On January 29, 2014, our board of directors adopted a new stock incentive plan. The plan was approved by our shareholders on April 23, 2014. The plan provides for the grant of up to 2,000,000 shares of common stock to our officers and key employees through stock options and/or awards valued in whole or in part by reference to our common stock, such as nonvested restricted stock awards. Terms of the plan are similar to the 2004 plan discussed above.

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

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2013	574,000	$ 1.77
Granted	151,000	$ 2.50
Vested	(139,200)	$ 2.28
Nonvested at December 31, 2014	585,800	$ 1.84

The aggregate market value of the nonvested restricted stock at the date of issuance is being amortized on a straight-line basis over the six-year service period or the service period remaining until normal retirement age, if shorter. The total fair value of shares vested during the years ended December 31, 2014, 2013 and 2012 based on the weighted average grant date fair value was $318,000, $394,000 and $474,000, respectively. The grant-date fair value of nonvested restricted stock awards granted during the years ended December 31, 2014, 2013 and 2012 was $2.50, $1.80 and $1.04, respectively. We recorded compensation expense of $278,000, $291,000 and $313,000 related to restricted stock awards for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, there was $601,000 of total unrecognized 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 3.9 years.

NOTE 10 Fair Value Measurements

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

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

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

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

The following table summarizes the valuation of our financial instrument pricing levels as of December 31, 2014 and 2013:

	Total	Level 1	Level 2	Level 3
2014:				
Available-for-sale securities	$ 820,000	$ 820,000	$	$
2013:				
Available-for-sale securities	$ 768,000	$ 768,000	$	$

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

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

At December 31, 2014 and 2013, there was $10,760,000 and $14,820,000, respectively, outstanding under our revolving credit agreement. The borrowings under our revolving credit agreement bear interest at the variable rate described in NOTE 6 Long-Term Debt and therefore we believe approximate fair value.

The following table summarizes the valuation of our pricing levels for non-financial assets that are measured at fair value on a non-recurring basis as of December 31, 2014 and 2013:

	Total	Level 1	Level 2	Level 3	2013 Losses
Long-lived assets held and used	$ 26,000,000	$	$	$ 26,000,000	$ 4,329,000

Fair value of the long-lived assets held and used was determined using a valuation methodology which gave specific consideration to the value of the owned real estate (refer to NOTE 3 Impairment Charge for further discussion).

NOTE 11 Related Party Transactions

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

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

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

In April of 2002, we spun-off our gaming business which was then owned by our subsidiary, Dover Downs Gaming & Entertainment, Inc. On a tax-free basis, we made a pro rata distribution of all of the capital stock of Gaming to our stockholders. Our continuing operations subsequent to the spin-off consist solely of our motorsports activities.

In conjunction with the spin-off of Gaming by us, the two companies 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 the two companies 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 the companies. 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 and from his status as trustee of the RMT Trust, our largest stockholder. This means that Mr. Tippie has the ability to determine the outcome of the election of directors and to determine the outcome of many significant corporate transactions, many of which only require the approval of a majority of our voting power.

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

NOTE 12 Commitments and Contingencies

We lease equipment at our facilities with leases expiring at various dates through 2016. Total rental payments charged to operations amounted to $75,000, $44,000 and $52,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

In September 1999, the Sports Authority of the County of Wilson (Tennessee) issued $25,900,000 in Variable Rate Tax Exempt Infrastructure Revenue Bonds, Series 1999, to acquire, construct and develop certain public infrastructure improvements which benefit Nashville Superspeedway, of which $18,000,000 was outstanding at December 31, 2014. Annual principal payments range from $800,000 in September 2015 to $1,600,000 in 2029 and are payable solely from sales taxes and incremental property taxes generated from the facility. These bonds are direct obligations of the Sports Authority and therefore have historically not been required to be recorded on our consolidated balance sheet. If the sales taxes and incremental property taxes (applicable taxes) are insufficient for the payment of principal and interest on the bonds, we would become responsible for the difference. In the event we were unable to make the payments, they would be made pursuant to an $18,302,000 irrevocable direct-pay letter of credit issued by our bank group. We are exposed to fluctuations in interest rates for these bonds.

As of December 31, 2014 and 2013, $1,932,000 and $1,908,000, respectively, was available in the sales and incremental property tax fund maintained by the Sports Authority to pay the remaining principal and interest due under the bonds. During 2014, we paid $979,000 into the sales and incremental property tax fund and $955,000 was deducted from the fund for principal and interest payments. If we fail to maintain the letter of credit that secures the bonds or we allow an uncured event of default to exist under our reimbursement agreement relative to the letter of credit, the bonds would be immediately redeemable.

Nashville Superspeedway no longer promotes NASCAR events and has not entered into sanction agreements with NASCAR since 2011. We currently use the facility on a limited basis for motorsports track rentals. In 2011 we recorded a $2,250,000 provision for contingent obligation reflecting the present value of the estimated portion of the revenue bonds debt service that may not be covered by the projected sales and incremental property taxes from the facility. Due to changing interest rates, the provision for contingent obligation decreased by $30,000, $91,000 and $316,000, net, in 2014, 2013 and 2012, respectively, and is $1,813,000 at December 31, 2014. An increase in interest rates would result in an increase in the portion of debt service not covered by applicable taxes and therefore an increase in our liability. On May 29, 2014, we entered into a definitive agreement to sell the Nashville facility to NeXovation, Inc. for $27 million in cash and the assumption by NeXovation, Inc. of our obligations under the aforementioned revenue bonds. The sale is scheduled to close by the end of the first quarter of 2015. Upon completion of the sale of the assets of Nashville Superspeedway, we will reverse the contingent obligation which will increase our pre-tax earnings by the amount of the obligation at the time it is reversed.

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 control and the subsequent termination of employment of all employees covered under these agreements, we estimate that the maximum contingent liability would range from $7,800,000 to $9,600,000 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 $2,900,000 and these amounts have been included in the maximum contingent liability disclosed above. This maximum tax gross up figure 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.

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

NOTE 13 Quarterly Results (unaudited)

	March 31	June 30	September 30(a)	December 31(b)
Year Ended December 31, 2014				
Revenues	$ 183,000	$ 24,273,000	$ 21,061,000	$ 157,000

Operating (loss) earnings	$ (3,537,000)	$ 8,411,000	$ 4,251,000	$ (3,433,000)
Net (loss) earnings	$ (2,118,000)	$ 4,844,000	$ 2,601,000	$ (2,182,000)
Net (loss) earnings per common share basic	$ (0.06)	$ 0.13	$ 0.07	$ (0.06)
Net (loss) earnings per common share diluted	$ (0.06)	$ 0.13	$ 0.07	$ (0.06)
Year Ended December 31, 2013				
Revenues	$ 116,000	$ 24,465,000	$ 21,470,000	$ 129,000
Operating (loss) earnings	$ (3,674,000)	$ 8,679,000	$ 7,300,000	$ (7,645,000)
Net (loss) earnings	$ (2,279,000)	$ 4,903,000	$ 4,158,000	$ (4,758,000)
Net (loss) earnings per common share basic	$ (0.06)	$ 0.13	$ 0.11	$ (0.13)
Net (loss) earnings per common share diluted	$ (0.06)	$ 0.13	$ 0.11	$ (0.13)

(a) During the third quarter of 2014, we recorded a loss on disposal of long-lived assets of $2,403,000 ($1,447,000 after income taxes) related to the removal and disposal of certain grandstand seating at our Dover International Speedway facility. See NOTE 4 Property and Equipment.

(b) During the fourth quarter of 2013, we recorded a non-cash pre-tax impairment charge of $4,329,000 ($2,814,000 after income taxes) related to our long-lived assets at our Nashville Superspeedway facility. See NOTE 3 Impairment Charge.

Our operations are seasonal in nature with a majority of our motorsports events occurring during the second and third quarters.