

CHURCHILL DOWNS INC  
Form 10-Q/A  
November 18, 2004

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

**FORM 10-Q**

**(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2004**

**OR**

**( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_ to \_\_\_\_**

**Commission file number 0-1469**

(Exact name of registrant as specified in its charter)

Kentucky  
(State or other jurisdiction of incorporation or organization)

61-0156015  
(IRS Employer Identification No.)

700 Central Avenue, Louisville, KY 40208  
(Address of principal executive offices) (Zip Code)

(502)-636-4400  
(Registrant's telephone number, including area code)

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

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

The number of shares outstanding of registrant's common stock at November 12, 2004 was 12,793,273 shares.

**CHURCHILL DOWNS INCORPORATED**  
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## ITEM 1. FINANCIAL STATEMENTS

**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**  
(in thousands)

	<u>September 30, 2004</u>	<u>December 31, 2003</u> <u>As Restated, Note 1</u>	<u>September 30, 2003</u> <u>As Restated, Note 1</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 18,414	\$ 18,053	\$ 20,407
Accounts receivable, net of allowance for doubtful accounts of \$1,126 at September 30, 2004 and \$1,141 at December 31, 2003 and \$983 at September 30, 2003	40,723	35,604	35,407
Deferred income taxes	4,161	3,767	2,584
Other current assets	6,243	1,613	4,397
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Total current assets	69,541	59,037	62,795
Other assets	17,431	16,941	15,761
Plant and equipment, net	406,278	367,229	349,341
Goodwill, net	50,400	52,239	52,239
Other intangible assets, net	7,055	7,464	7,222
	<hr/>	<hr/>	<hr/>
	\$ 550,705	\$ 502,910	\$ 487,358
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 38,809	\$ 35,149	\$ 34,984
Accrued expenses	40,520	38,491	31,710
Dividends payable	-	6,625	-
Income taxes payable	1,320	-	11,218
Deferred revenue	24,794	18,050	9,738
Long-term debt, current portion	-	5,740	515
	<hr/>	<hr/>	<hr/>
Total current liabilities	105,443	104,055	88,165
Long-term debt, due after one year	153,549	121,096	114,438
Other liabilities	13,546	11,719	13,803
Deferred income taxes	11,621	13,327	13,099
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Total liabilities	284,159	250,197	229,505
Commitments and contingencies	-	-	-
Shareholders' equity:			
Preferred stock, no par value; 250 shares authorized; no shares issued	-	-	-
Common stock, no par value; 50,000 shares authorized; issued: 13,323 shares September 30, 2004, 13,250 shares December 31, 2003, and 13,199 shares September 30, 2003	130,541	128,583	127,193
Retained earnings	136,600	124,491	131,505
Accumulated other comprehensive loss	(595)	(361)	(845)
	<hr/>	<hr/>	<hr/>
	266,546	252,713	257,853
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<u>September 30, 2004</u>	<u>December 31, 2003</u> <u>As Restated, Note 1</u>	<u>September 30, 2003</u> <u>As Restated, Note 1</u>
\$ 550,705	\$ 502,910	\$ 487,358

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

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**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS)**  
**for the nine and three months ended September 30, 2004 and 2003**  
**(Unaudited)**  
**(In thousands, except per share data)**

	<u>Nine Months Ended</u> <u>September 30,</u>		<u>Three Months Ended</u> <u>September 30,</u>	
	<u>2004</u>	<u>2003</u> <u>As</u> <u>Restated,</u> <u>Note 1</u>	<u>2004</u>	<u>2003</u> <u>As</u> <u>Restated,</u> <u>Note 1</u>
Net revenues	\$ 347,047	\$ 345,257	\$ 119,683	\$ 121,819
Operating expenses	280,546	276,846	101,346	100,225
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Gross profit	66,501	68,411	18,337	21,594
Selling, general and administrative expenses	32,412	25,338	13,249	8,499
Asset impairment loss	4,363	-	4,363	-
Intangible impairment loss	1,839	-	1,839	-
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Operating income (loss)	27,887	43,073	(1,114)	13,095
Other income (expense):				
Interest income	303	1,196	102	1,061
Interest expense	(4,084)	(4,716)	(1,526)	(1,410)
Miscellaneous, net	1,139	688	299	45
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	(2,642)	(2,832)	(1,125)	(304)
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Earnings (loss) before provision

CHURCHILL DOWNS INCORPORATED CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS)

	<u>Nine Months Ended</u> <u>September 30,</u>		<u>Three Months Ended</u> <u>September 30,</u>	
for income taxes	25,245	40,241	(2,239)	12,791
Provision for income taxes	(13,136)	(16,343)	(1,601)	(5,196)
Net earnings (loss)	<u>\$ 12,109</u>	<u>\$ 23,898</u>	<u>\$ (3,840)</u>	<u>\$ 7,595</u>
Net earnings (loss) per common share data:				
Basic	\$ 0.91	\$ 1.81	\$ (0.29)	\$ 0.58
Diluted	\$ 0.90	\$ 1.79	\$ (0.29)	\$ 0.57
Weighted average shares outstanding:				
Basic	13,285	13,175	13,310	13,192
Diluted	13,467	13,377	13,310	13,396

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

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**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**for the nine ended September 30,**  
**(Unaudited)**  
**(In thousands)**

	<u>2004</u>	<u>2003</u> <u>As Restated,</u> <u>Note 1</u>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 12,109	\$ 23,898
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	16,245	15,315
Asset impairment	4,363	-
Intangible impairment	1,839	-
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(5,118)	(972)
Other current assets	(5,616)	270
Accounts payable	6,417	5,573
Accrued expenses	5,744	(1,120)
Income taxes payable	2,305	11,201
Deferred revenue	6,744	(5,138)
Other assets and liabilities	(329)	(2,197)
Net cash provided by operating activities	<u>44,703</u>	<u>46,830</u>

	<u>2004</u>	<u>2003</u>
<b>Cash flows from investing activities:</b>		
Additions to plant and equipment, net	(63,562)	(25,440)
Net cash used in investing activities	(63,562)	(25,440)
<b>Cash flows from financing activities:</b>		
Repayments of revolving loan facility for refinancing	-	(120,929)
Proceeds from senior notes, net of expenses	-	98,229
Borrowings on bank line of credit	318,403	253,881
Repayments of bank line of credit	(290,072)	(240,952)
Decrease in long-term debt, net	(1,618)	(395)
Change in book overdraft	(2,826)	(3,363)
Proceeds from note receivable for common stock	-	65
Payment of dividends	(6,625)	(6,578)
Common stock issued	1,958	1,150
Net cash provided by (used in) financing activities	19,220	(18,892)
Net increase in cash and cash equivalents	361	2,498
Cash and cash equivalents, beginning of period	18,053	17,909
Cash and cash equivalents, end of period	\$ 18,414	\$ 20,407
<b>Supplemental cash flow disclosures:</b>		
Interest	\$ 5,037	\$ 4,768
Income taxes	\$ 12,928	\$ 4,689
<b>Schedule of non-cash activities:</b>		
Plant and equipment additions included in accounts payable	\$ 2,934	\$ 562

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

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**CHURCHILL DOWNS INCORPORATED**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**for the nine months ended September 30, 2004 and 2003 (Unaudited)**  
**(\$ in thousands, except per share data)**

**1. Restatement of Previously Issued Consolidated Financial Statements**

- (1) Churchill Downs Incorporated (the Company) recently determined that purse overpayments were improperly recorded as assets. Purse overpayments are created when, at the end of a race meeting, the purses paid to horsemen exceed the purses payable as a result of pari-mutuel operations during the race meeting. Contractual arrangements between the Company and the

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horsemen's organizations at the Company's various racetracks, which generally expire at the end of a race meeting, provide that if a purse overpayment exists at the end of a race meeting, such overpayment may be recovered through reductions of purses otherwise paid in the subsequent race meeting(s) if a subsequent contract is entered into with the horsemen's organization. The Company has historically recorded these purse overpayments as receivables, subject to any necessary valuation allowances. The Company has now determined that these overpayments do not constitute receivables and do not meet the definition of an asset under U.S. Generally Accepted Accounting Principles, thus any purse overpayment that exists at the end of a race meeting should be expensed. Accordingly, the Company has restated its consolidated financial statements for the effect of this error. Additionally, amounts recorded as subsidy revenues have been reclassified to operating expenses to offset purse expense. This restatement serves to delay the recognition of the recovery until the period in which it actually occurs. Historically, the Company has successfully recovered any overpayments as contractually allowed.

- (2) During 2004 the Company also determined that it was classifying simulcast host fees incurred inconsistently. The Company imports simulcast horse racing from other racetracks and pays a fee for the signal (simulcast host fees incurred). The Company's accounting policy is to record the simulcast host fees incurred as an expense. However, at certain of the Company's racetracks, simulcast host fees incurred were incorrectly netted against revenue. The 2003 condensed consolidated financial statements have been restated to reclassify simulcast host fees incurred that were netted against revenue to operating expense. There is no change in net earnings or earnings per share as a result of this restatement. Additionally, various immaterial amounts were reclassified, at certain of the Company's racetracks, to conform to the current period presentation.

The effect of the restatements as follows:

<b>Nine Months ended September 30, 2003</b>	<b>As Previously Reported</b>	<b>Adjustment (1)</b>	<b>Adjustment (2)</b>	<b>As Restated</b>
Net revenues	\$ 331,810	\$ (3,414)	\$ 16,861	\$ 345,257
Operating expenses	262,338	(2,557)	17,065	276,846
Gross profit (loss)	69,472	(857)	(204)	68,411
Selling, general and administrative	25,429	-	(91)	25,338
Operating income (loss)	44,043	(857)	(113)	43,073
Other income (expense)	(2,945)	-	113	(2,832)
Earnings (loss) before (provision) benefit for income taxes	41,098	(857)	-	40,241
(Provision) benefit for income taxes	(16,686)	343	-	(16,343)
Net earnings (loss)	\$ 24,412	(\$ 514)	\$ -	\$ 23,898
Net earnings per common share data:				
Basic	\$1.85	(\$0.04)	-	\$1.81
Diluted	\$1.82	(\$0.03)	-	\$1.79

**CHURCHILL DOWNS INCORPORATED**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**for the nine months ended September 30, 2004 and 2003 (Unaudited)**  
**(\$ in thousands, except per share data)**

<b>Three Months ended September 30, 2003</b>	<b>As Previously Reported</b>	<b>Adjustment (1)</b>	<b>Adjustment (2)</b>	<b>As Restated</b>
Net revenues	\$ 117,525	\$ (2,134)	\$ 6,428	\$ 121,819
Operating expenses	95,371	(1,654)	6,508	100,225
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Gross profit (loss)	22,154	(480)	(80)	21,594
Selling, general and administrative	8,556	-	(57)	8,499
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Operating income (loss)	13,598	(480)	(23)	13,095
Other income (expense)	(327)	-	23	(304)
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Earnings (loss) before (provision) benefit for income taxes	13,271	(480)	-	12,791
(Provision) benefit for income taxes	(5,388)	192	-	(5,196)
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Net earnings (loss)	\$ 7,883	(\$ 288)	\$ -	\$ 7,595
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