

CHURCHILL DOWNS INC  
Form 10-Q/A  
December 03, 2004

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q/A

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

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

**OR**

o **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 August 5, 2004 was 13,298,006 shares.

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**EXPLANATORY NOTE**



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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 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 is filing this Form 10-Q/A to restate its consolidated financial statements for the effect of this error. This restatement serves to delay the recognition of the recovery until the period in which it actually occurs. Additionally, amounts recorded as revenues for Illinois purse recapture subsidies have been reclassified to operating expenses to offset purse expense.

The Items of the Company's Form 10-Q/A for the quarter ended June 30, 2004 which are amended and restated are as follows: Part I Financial Information, Item 1 Financial Statements; Part I Financial Information, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations; and Part I Financial Information, Item 4 Controls and Procedures.

The remaining Items contained within this Form 10-Q/A consist of all other Items originally contained in our Form 10-Q for the quarter ended June 30, 2004 in the form filed on August 8, 2004. This Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q, nor modify or update those disclosures in any way other than as required to reflect the effects of the restatement.

**CHURCHILL DOWNS INCORPORATED**

**I N D E X TO QUARTERLY REPORT ON FORM 10-Q/A**

**Part I**

<u>Item 1.</u>	<u>Financial Statements</u>  <u>Condensed Consolidated Balance Sheets, June 30, 2004, December 31, 2003, and June 30, 2003</u>  <u>Condensed Consolidated Statements of Net Earnings for the six and three months ended June 30, 2004 and 2003</u>  <u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2004 and 2003</u>  <u>Notes to Condensed Consolidated Financial Statements</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>

**Part II**

<u>Item 1.</u>	<u>Legal Proceedings (Not applicable)</u>
<u>Item 2.</u>	<u>Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities (Not applicable)</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities (Not applicable)</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>
<u>Item 5.</u>	<u>Other Information (Not applicable)</u>
<u>Item 6.</u>	<u>Exhibits and Reports on Form 8-K</u>
<u>Signatures</u>	
<u>Exhibit Index</u>	

**PART I. FINANCIAL INFORMATION**





**ITEM 1. FINANCIAL STATEMENTS**

**CHURCHILL DOWNS INCORPORATED**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

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(in thousands)

	June 30, 2004 As Restated, Note 1 (unaudited)	December 31, 2003 As Restated, Note 1	June 30, 2003 As Restated, Note 1 (unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 39,587	\$ 18,053	\$ 41,353
Accounts receivable, net of allowance for doubtful accounts of \$1,147 at June 30, 2004 and \$1,141 at December 31, 2003 and \$975 at June 30, 2003	49,016	35,604	45,148
Deferred income taxes	3,349	3,767	3,043
Other current assets	4,828	1,613	4,885
<b>Total current assets</b>	<b>96,780</b>	<b>59,037</b>	<b>94,429</b>
Other assets			
Plant and equipment, net	16,474	16,941	11,962
Goodwill, net	403,191	367,229	347,699
Other intangible assets, net	52,239	52,239	52,239
	7,178	7,464	7,313
	<b>\$ 575,862</b>	<b>\$ 502,910</b>	<b>\$ 513,642</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 76,723	\$ 35,149	\$ 65,288
Accrued expenses	43,918	38,491	35,853
Dividends payable		6,625	
Income taxes payable	7,240		8,291
Deferred revenue	4,478	18,050	7,653
Long-term debt, current portion		5,740	472
<b>Total current liabilities</b>	<b>132,359</b>	<b>104,055</b>	<b>117,557</b>
Long-term debt, due after one year	146,079	121,096	119,811
Other liabilities	13,627	11,719	14,053
Deferred income taxes	13,318	13,327	13,103
<b>Total liabilities</b>	<b>305,383</b>	<b>250,197</b>	<b>264,524</b>
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: 13,295 shares June 30, 2004, 13,250 shares December 31, 2003, and 13,183 shares June 30, 2003			
	129,789	128,583	126,725
Retained earnings	140,441	124,491	123,910
Accumulated other comprehensive earnings (loss)	249	(361)	(1,517)
	<b>270,479</b>	<b>252,713</b>	<b>249,118</b>
	<b>\$ 575,862</b>	<b>\$ 502,910</b>	<b>\$ 513,642</b>

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

**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS**

for the six and three months ended June 30, 2004 and 2003

(Unaudited)

(In thousands, except per share data)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
	As Restated, Note 1	As Restated, Note 1	As Restated, Note 1	As Restated, Note 1
Net revenues	\$ 227,364	\$ 223,438	\$ 189,635	\$ 187,719
Operating expenses	179,200	176,722	131,707	131,251
Gross profit	48,164	46,716	57,928	56,468
Selling, general and administrative expenses	19,163	16,909	10,085	8,731
Operating income	29,001	29,807	47,843	47,737
Other income (expense):				
Interest income	201	135	85	73
Interest expense	(2,558)	(3,306)	(1,174)	(1,479)
Miscellaneous, net	840	597	504	173
	(1,517)	(2,574)	(585)	(1,233)
Earnings before provision for income taxes	27,484	27,233	47,258	46,504
Provision for income taxes	(11,534)	(11,060)	(19,562)	(18,807)
Net earnings	\$ 15,950	\$ 16,173	\$ 27,696	\$ 27,697
Net earnings per common share data:				
Basic	\$ 1.20	\$ 1.23	\$ 2.08	\$ 2.10
Diluted	\$ 1.18	\$ 1.21	\$ 2.06	\$ 2.07
Weighted average shares outstanding:				
Basic	13,272	13,167	13,287	13,174
Diluted	13,460	13,367	13,473	13,380

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





**CHURCHILL DOWNS INCORPORATED**

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for the six months ended June 30,

(Unaudited)

(in thousands)

	2004 As Restated, Note 1	2003 As Restated, Note 1
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 15,950	\$ 16,173
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	10,819	10,171
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(13,412)	(10,612)
Other current assets	(3,215)	(322)
Accounts payable	39,272	34,758
Accrued expenses	10,035	1,961
Income taxes payable	7,240	8,291
Deferred revenue	(13,572)	(7,223)
Other assets and liabilities	2,406	1,903
Net cash provided by operating activities	55,523	55,100
<b>Cash flows from investing activities:</b>		
Additions to plant and equipment, net	(47,828)	