CHURCHILL DOWNS INC
Form 10-Q
November 05, 2008
Table of Contents

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, 2008

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	**61-0156015**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

700 Central Avenue, Louisville, Kentucky 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 x No ¨

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of registrant s common stock at October 30, 2008 was 13,682,124 shares.

Table of Contents

CHURCHILL DOWNS INCORPORATED

INDEX TO QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended September 30, 2008

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHURCHILL DOWNS INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited) (in thousands)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,314	$ 15,345
Restricted cash	14,670	11,295
Accounts receivable, net of allowance for doubtful accounts of $1,501 at September 30, 2008 and $1,358 at December 31, 2007	26,493	46,335
Deferred income taxes	6,352	6,497
Income taxes receivable	2,370	13,414
Other current assets	11,738	10,396
Total current assets	74,937	103,282
Property and equipment, net	371,372	357,986
Goodwill	115,349	108,349
Other intangible assets, net	33,659	39,087
Other assets	13,829	16,112
Total assets	$ 609,146	$ 624,816
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 34,151	$ 32,032
Purses payable	12,876	12,816
Accrued expenses	46,545	43,788
Dividends payable		6,750
Deferred revenue	7,947	25,455
Total current liabilities	101,519	120,841
Long-term debt	36,000	67,989
Convertible note payable, related party	14,550	14,234
Other liabilities	20,605	20,452
Deferred revenue	18,296	19,680
Deferred income taxes	14,266	14,062
Total liabilities	205,236	257,258
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; 13,682 shares issued September 30, 2008 and 13,672 shares issued December 31, 2007	141,491	137,761
Retained earnings	262,419	229,797

Total shareholders equity		403,910		367,558
Total liabilities and shareholders equity	$	609,146	$	624,816

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

3

Table of Contents

CHURCHILL DOWNS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS

for the three and nine months ended September 30,

(Unaudited)

(in thousands, except per common share data)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net revenues	$ 99,603	$ 103,905	$ 344,621	$ 321,680
Operating expenses	83,302	86,264	266,155	247,766
Selling, general and administrative expenses	12,006	13,009	37,708	35,903
Insurance recoveries			(17,200)	(784)
Operating profit	4,295	4,632	57,958	38,795
Other income (expense):				
Interest income	144	163	478	828
Interest expense	(362)	(1,123)	(1,539)	(2,254)
Equity in loss of unconsolidated investments	(670)	(1,278)	(2,640)	(2,271)
Miscellaneous, net	292	484	1,125	2,977
	(596)	(1,754)	(2,576)	(720)
Earnings from continuing operations before provision for income taxes	3,699	2,878	55,382	38,075
Provision for income taxes	(1,351)	(1,741)	(22,768)	(15,906)
Net earnings from continuing operations	2,348	1,137	32,614	22,169
Discontinued operations, net of income taxes:				
Earnings (loss) from operations	120	(319)	8	(41)
(Loss) on sale of business				(182)
Net earnings	$ 2,468	$ 818	$ 32,622	$ 21,946
Net earnings (loss) per common share:				
Basic				
Net earnings from continuing operations	$ 0.17	$ 0.08	$ 2.33	$ 1.60
Discontinued operations	0.01	(0.02)		(0.02)
Net earnings	$ 0.18	$ 0.06	$ 2.33	$ 1.58
Diluted				
Net earnings from continuing operations	$ 0.17	$ 0.08	$ 2.33	$ 1.59
Discontinued operations	0.01	(0.02)		(0.01)
Net earnings	$ 0.18	$ 0.06	$ 2.33	$ 1.58
Weighted average shares outstanding				
Basic	13,549	13,509	13,534	13,436
Diluted	14,025	14,038	14,016	13,937

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

Table of Contents

CHURCHILL DOWNS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for the nine months ended September 30,

(Unaudited) (in thousands)

	2008	2007
Cash flows from operating activities:		
Net earnings	$ 32,622	$ 21,946
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	21,446	16,759
Loss on sale of business		297
Equity in loss of unconsolidated investments	2,640	2,271
Share-based compensation	3,344	4,669
Loss (gain) on asset disposition	63	(1,763)
Other	(154)	194
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of business acquisitions:		
Restricted cash	(1,962)	2,993
Accounts receivable	5,716	3,450
Other current assets	(2,065)	(1,035)
Accounts payable	5,071	2,382
Purses payable	60	(429)
Accrued expenses	(938)	(1,836)
Deferred revenue	(4,767)	(5,238)
Income taxes receivable and payable	11,049	6,188
Other assets and liabilities	2,517	4,493
Net cash provided by operating activities	74,642	55,341
Cash flows from investing activities:		
Additions to property and equipment	(28,562)	(37,548)
Acquisitions of businesses		(79,338)
Contingency payment for acquisition of business	(3,500)	
Proceeds from the sale of business, net of cash sold		(8,897)
Purchases of investments	(2,609)	(1,480)
Proceeds on sale of property and equipment		2,975
Change in deposit wagering asset	(690)	(3,027)
Net cash used in investing activities	(35,361)	(127,315)
Cash flows from financing activities;		
Borrowings on bank line of credit	235,853	250,765
Repayments on bank line of credit	(267,843)	(190,566)
Change in book overdraft	(3,401)	2,670
Windfall tax benefit from share-based compensation	19	509
Payment of dividends	(6,750)	(6,670)
Common stock issued	448	3,140
Repurchase of common stock	(82)	
Change in deposit wagering liability	444	(347)
Net cash (used in) provided by financing activities	(41,312)	59,501
Net decrease in cash and cash equivalents	(2,031)	(12,473)
Cash and cash equivalents, beginning of period	15,345	28,072

Cash and cash equivalents, end of period	$ 13,314	$ 15,599

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

Table of Contents

CHURCHILL DOWNS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for the nine months ended September 30,

(Unaudited) (in thousands)

	2008	2007
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,674	$ 1,177
Income taxes	11,645	8,819
Schedule for non-cash investing and financing activities:		
Property and equipment additions included in accounts payable and accrued expenses		$ 14
Assignment of notes receivable		4,000
Issuance of common stock with restricted stock plan	$ 30	8,278
Assets acquired and liabilities assumed in acquisitions of businesses:		
Accounts receivable, net		$ 4,164
Other current assets		152
Other non-current assets		5
Property and equipment	$ 3,500	848
Goodwill		53,506
Other intangible assets		25,000
Accounts payable		4,144
Accrued expenses	3,500	162
Deferred revenue		31

6

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements are presented in accordance with the requirements of this Quarterly Report on Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in Churchill Downs Incorporated s (the Company) Annual Report on Form 10-K. The year-end Condensed Consolidated Balance Sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. Accordingly, the reader of this Quarterly Report on Form 10-Q should refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2007 for further information. The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with the Company s customary accounting practices and have not been audited.

In the opinion of management, all adjustments necessary for a fair statement of this information have been made, and all such adjustments are of a normal, recurring nature.

The Company s revenues and earnings are significantly influenced by its racing calendar. Therefore, revenues and operating results for any interim quarter are generally not indicative of the revenues and operating results for the year and may not be comparable with results for the corresponding period of the previous year. The Company conducts the majority of its live racing during the second, third and fourth quarters, including the running of the Kentucky Derby and the Kentucky Oaks during the second quarter, the quarter during which the Company typically generates the majority of its annual operating income. The Company conducted 119 live racing days during the third quarter of 2008, which compares to 121 live racing days conducted during the third quarter of 2007. For the nine months ended September 30, 2008, the Company conducted 302 live racing days, which compares to 308 live racing days conducted during the nine months ended September 30, 2007.

Comprehensive Earnings

The Company had no other components of comprehensive earnings and, as such, comprehensive earnings is the same as net earnings as presented in the accompanying Condensed Consolidated Statements of Net Earnings.

NOTE 2 CALDER RACE COURSE PURSE AGREEMENTS

On July 7, 2008, certain subsidiaries of the Company reached agreement with the Florida Horsemen s Benevolent and Protective Association, Inc. (the FHBPA) with respect to the sharing of revenues from pari-mutuel operations (the Purse Agreement) and slot machines (the Slots Agreement) at Calder Race Course (Calder). These agreements allowed Calder to resume distributing its signal from Calder to the simulcast network around the country, including off-track betting (OTB) facilities and racetracks (but excluding national advance deposit wagering (ADW) companies), beginning with races on July 10, 2008. In addition, certain out-of-state horsemen s groups that previously withheld the consents required under the Interstate Horseracing Act of 1978 (the IHA) to send certain racetracks signals to Calder for wagering have now granted those consents.

The Purse Agreement became effective on July 7, 2008. Under the terms of the Purse Agreement, for thoroughbred horse racing meetings at Calder through January 2, 2009, the Company generally will make payments to the horsemen in an amount equal to fifty percent (50%) of all revenue from pari-mutuel operations.

The Slots Agreement will become effective on the day the slot machine facility at Calder opens to the general public for slot machine wagering (the date of First Coin Drop) and will expire on the tenth anniversary of the first December 31st after the date of First Coin Drop, subject to automatic five-year renewal periods. Under the Slots Agreement, Calder will contribute certain sums of slot machine revenue to supplement thoroughbred racing purses at Calder. During the first four years of the Slots Agreement, the Company will supplement purses for thoroughbred horse races conducted at Calder at a minimum of $14.4 million in the aggregate depending on the date of the First Coin Drop. Thereafter, Calder will supplement purses by 6.75% of slot machine revenue annually for the remainder of the initial term of the Slots Agreement. The Slots Agreement also requires that Calder and the Company s

Tropical Park racing meet at Calder, collectively, conduct live thoroughbred horse racing on no fewer than 150 days per full calendar year during the term of the Slots Agreement, which requirement is generally contingent upon the existence of a current, executed purse agreement as of March 15 of each such calendar year.

The Calder Slots Agreement and the Calder Purse Agreement initially included provisions that could lead to the termination of those agreements if agreement with the Florida Thoroughbred Breeders and Owners Association (the FTBOA) for the sharing of slots revenue at Calder was not reached by August 6, 2008; however, Calder and the FHBPA agreed on July 31, 2008 to amend each of the Calder Slots Agreement and Calder Purse Agreement to extend that deadline to August 31, 2008 and then a second time to extend such deadline to September 10, 2008. Calder and the FTBOA reached agreement (the Breeders Agreement) for the sharing of slots revenue on September 10, 2008. Under the Breeders Agreement, Calder will supplement the payment of thoroughbred breeders stallion and special racing awards in an amount equal to 0.75% of slot machine revenue annually. The Breeders Agreement will be effective on the date of the First Coin Drop and will expire on the tenth anniversary of the first December 31st after the First Coin Drop subject to five-year renewal periods at the election of the FTBOA.

NOTE 3 HOOSIER PARK CONTINGENT CONSIDERATION

The Partnership Interest Purchase Agreement with Centaur Racing LLC for the sale of the Company s interest in Hoosier Park includes a contingent consideration provision whereby the Company is entitled to payments of up to $15 million once slot machines are operational at Hoosier Park. During June 2008, Hoosier Park commenced its slot operations, fulfilling the terms of the contingency provision. As of September 30, 2008, management has determined that collectibility of amounts due is not reasonably assured and therefore has not recognized the amount due under the agreement as of that date. Amounts due will be recorded as a gain on the sale of Hoosier Park once collectibility is reasonably assured.

NOTE 4 ACQUISITIONS AND NEW VENTURES

On June 11, 2007, the Company completed its acquisition of certain assets of AmericaTab (ATAB), Bloodstock Research Information Services, Inc. (BRIS) and the Thoroughbred Sports Network, Inc. (TSN) (collectively, ATAB and BRIS) for an aggregate purchase price of $80 million, plus potential earn-out payments of up to $7 million, which is based upon the financial performance of the operations of the ADW business during the five years ended June 30, 2012. During the first quarter of 2008, the Company determined that defined financial performance conditions would be achieved at some point prior to June 30, 2012 and therefore, accrued the entire earn-out payment of $7.0 million as a current liability with a corresponding increase to goodwill. During the quarter ended September 30, 2008, the Company paid $3.5 million of the earn-out payment. The transaction includes the acquisition of the following ADW platforms: winticket.com, BrisBet.com and TsnBet.com. Through these transactions, the Company has also acquired the operations of two industry-leading data services companies, BRIS and TSN, which produce handicapping and pedigree reports that are sold to racetracks, horse owners and breeders, horse players and racing-related publications. The primary reason for these acquisitions was to invest in assets with an expected yield on investment, as well as to enter one of the fastest growing segments of the pari-mutuel wagering industry. During the fourth quarter of 2007, the Company merged the ATAB ADW business with TwinSpires, an internally developed ADW business, thereby establishing a single ADW brand.

Table of Contents

Pro Forma

The following table illustrates the effect on net revenues from continuing operations, net earnings from continuing operations, and net earnings from continuing operations per common share as if the Company had consummated the acquisitions of ATAB and BRIS as of the beginning of the period presented. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had the acquisitions of ATAB and BRIS been consummated at the beginning of the period.

	Nine Months Ended September 30, 2007
Net revenues from continuing operations	$ 347,458
Net earnings from continuing operations	$ 23,780
Net earnings from continuing operations per common share:	
Basic	$ 1.71
Diluted	$ 1.71
Shares used in computing earnings from continuing operations per common share:	
Basic	13,436
Diluted	13,937

NOTE 5 INSURANCE RECOVERIES

On August 29, 2005, Hurricane Katrina caused significant damage to the metropolitan New Orleans, Louisiana area. During the nine months ended September 30, 2008, the Company received $17.2 million of insurance recoveries related to a claim for this damage. This represented the final payments of all outstanding property and business interruption claims related to this damage. As a result, $17.2 million of insurance recoveries were included in the Company s Condensed Consolidated Statement of Net Earnings for the nine months ended September 30, 2008.

NOTE 6 SETTLEMENT WITH EP ACQUISITION, LLC

The Company has reached an agreement with EP Acquisition, LLC to settle certain disputes arising out of the sale of Ellis Park pursuant to the Stock Purchase Agreement, which resulted in a payment of $2.0 million to EP Acquisition, LLC during the second quarter of 2008 representing a reduction to the original sales proceeds. This reduction to the original purchase price was included in discontinued operations of the Company s Consolidated Statement of Net Earnings for the year ended December 31, 2007.

NOTE 7 LONG-TERM INCENTIVE PLAN

During March 2008, the Board of Directors approved the Terms and Conditions of Performance Share Awards Issued Pursuant to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan (the Company LTIP) as well as the Terms and Conditions of Performance Share Awards Issued Pursuant to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan for Employees of TwinSpires (the TwinSpires LTIP). The objective of the Company LTIP and the TwinSpires LTIP is to support the entrepreneurial mindset desired by management by providing an opportunity to earn significant equity in the Company for achieving significant performance targets.

In accordance with the Company LTIP, participants earn performance share awards over a five year period (2008 through 2012) that are paid in either cash or stock of the Company, at the discretion of the Company, based on performance targets achieved by the Company as well as the participant. Performance targets of the Company are predetermined Company EBITDA (defined as earnings before interest, taxes, depreciation and amortization) goals for each year during the term of the Company LTIP. Performance targets of the participants are defined as substantial contributions to the performance and strategic improvement of the Company.

Table of Contents

In accordance with the TwinSpires LTIP, participants earn performance share awards over a four year period (2008 though 2011) that are paid in either cash or stock of the Company, at the discretion of the Company, based on performance targets achieved by TwinSpires. Performance targets of TwinSpires are predetermined TwinSpires EBITDA goals for each year during the term of the TwinSpires LTIP.

During the first quarter subsequent to each year during the term of each of the Company LTIP and the TwinSpires LTIP, performance share awards denominated in either cash or stock are awarded to participants based on assessment of the achievement of performance targets. Such awards have varying service conditions and vest on a quarterly basis. During the three months ended September 30, 2008, the Company determined that it was unlikely that it would incur any obligations related to 2008 performance based on the Company s results of operations and reversed $1.0 million of compensation expense related to both LTIP plans that was previously recognized during 2008.

NOTE 8 GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS IMPAIRMENT TEST

Goodwill and indefinite-lived intangible assets are tested for impairment on an annual basis in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. In assessing whether goodwill is impaired, the fair value of the related reporting unit is compared to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test consists of comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized equal to such excess. The implied fair value of goodwill is determined in the same manner as when determining the amount of goodwill recognized in a business combination. The Company completed the required annual impairment tests of goodwill and indefinite-lived intangible assets during the three months ended March 31, 2008, and no adjustment to the carrying value of goodwill or indefinite-lived intangible assets was required.

NOTE 9 FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 157, Fair Value Measurements (SFAS No. 157), establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value and expands disclosures about such fair value measurements. Issued in February 2008, Financial Accounting Standards Board Staff Position (FSP) No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, removed leasing transactions accounted for under SFAS No. 13 and related guidance from the scope of SFAS No. 157. FSP No. 157-2, Partial Deferral of the Effective Date of SFAS No. 157, deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the Company s Consolidated Financial Statements on a recurring basis, to fiscal years beginning after November 15, 2008.

The Company adopted SFAS No. 157 as of January 1, 2008 for financial assets and financial liabilities, and there was no impact on the Company s consolidated financial position and results of operations for the three and nine months ended September 30, 2008. The Company is currently assessing the impact of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities on the Company s consolidated financial position and results of operations.

SFAS No. 157 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS No. 157 requires that assets and liabilities carried at a fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

Table of Contents

The Company endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Approximately $14.7 million of the Company s restricted cash at September 30, 2008, a portion of which is held in interest bearing accounts, which qualifies for Level 1 in the fair value hierarchy described above. The Company also had $13.3 million of cash and cash equivalents, which qualifies for Level 1 in the fair value hierarchy above. The Company currently has no other financial instruments subject to fair value measurement on a recurring basis.

NOTE 10 EARNINGS PER SHARE

The following is a reconciliation of the numerator and denominator of the earnings from continuing operations per common share computations (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Numerator for basic net earnings from continuing operations per common share:				
Net earnings from continuing operations	$ 2,348	$ 1,137	$ 32,614	$ 22,169
Net earnings from continuing operations allocated to participating securities	(76)	(37)	(1,055)	(722)
Numerator for basic net earnings from continuing operations per common share	$ 2,272	$ 1,100	$ 31,559	$ 21,447
Numerator for basic net earnings per common share:				
Net earnings	$ 2,468	$ 818	$ 32,622	$ 21,946
Net earnings allocated to participating securities	(79)	(27)	(1,055)	(715)
Numerator for basic net earnings per common share	$ 2,389	$ 791	$ 31,567	$ 21,231
Numerator for diluted net earnings per common share:				
Net earnings from continuing operations	$ 2,348	$ 1,137	$ 32,614	$ 22,169
Discontinued operations, net of income taxes	120	(319)	8	(223)
Net earnings	$ 2,468	$ 818	$ 32,622	$ 21,946
Denominator for net earnings per common share:				
Basic	13,549	13,509	13,534	13,436
Plus dilutive effect of stock options	23	76	29	48
Plus dilutive effect of convertible note	453	453	453	453
Diluted	14,025	14,038	14,016	13,937
Earnings per common share:				
Basic				
Net earnings from continuing operations	$ 0.17	$ 0.08	$ 2.33	$ 1.60
Discontinued operations	0.01	(0.02)		(0.02)
Net earnings	$ 0.18	$ 0.06	$ 2.33	$ 1.58
Diluted				
Net earnings from continuing operations	$ 0.17	$ 0.08	$ 2.33	$ 1.59
Discontinued operations	0.01	(0.02)		(0.01)
Net earnings	$ 0.18	$ 0.06	$ 2.33	$ 1.58

Table of Contents

Options to purchase approximately 80 thousand and 40 thousand shares for the three and nine months ended September 30, 2008, respectively, and options to purchase six thousand and two thousand shares for the three and nine months ended September 30, 2007, respectively, were not included in the computation of earnings per common share assuming dilution because the options exercise prices were greater than the average market price of the common shares.

NOTE 11 SEGMENT INFORMATION

During the second quarter of 2008, the Company implemented a business realignment that more properly considers recent growth and changes in its businesses. As a result of this realignment, the Company redefined its business segments. All prior period segment information has been reclassified to conform to the current period s presentation. The Company has determined that it currently operates in the following four segments: (1) Racing Operations, which includes Churchill Downs Racetrack (Churchill Downs), Calder, Arlington Park and its ten OTBs and Fair Grounds Race Course (Fair Grounds) and the pari-mutuel activity generated at its ten OTBs; (2) On-line Business, which includes TwinSpires, our ADW business, and BRIS as well as the Company s equity investment in HRTV; (3) Gaming, which includes video poker and slot operations; and (4) Other Investments, including Churchill Downs Simulcast Productions and the Company s other minor investments. Eliminations include the elimination of intersegment transactions.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies in Note 1 of the Company s Annual Report on Form 10-K for the year ended December 31, 2007. The Company uses revenues and EBITDA as key performance measures of the results of operations for purposes of evaluating performance internally. Furthermore, management believes that the use of these measures enables management and investors to evaluate and compare from period to period, the Company s operating performance in a meaningful and consistent manner. Because the Company uses EBITDA as a key performance measure of financial performance, the Company is required by accounting principles generally accepted in the United States of America to provide the information in this footnote concerning EBITDA. However, these measures should not be considered as an alternative to, or more meaningful than, net earnings (as determined in accordance with accounting principles generally accepted in the United States of America) as a measure of the Company s operating results or cash flows (as determined in accordance with accounting principles generally accepted in the United States of America) or as a measure of the Company s liquidity.

Table of Contents

The table below presents information about reported segments for the three and nine months ended September 30, 2008 and 2007 (in thousands):

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net revenues from external customers:				
Churchill Downs	$ 5,620	$ 7,271	$ 101,750	$ 102,117
Arlington Park	36,681	38,100	77,450	80,052
Calder	24,500	33,046	45,918	60,879
Fair Grounds	7,049	8,702	39,299	44,053
Total Racing Operations	73,850	87,119	264,417	287,101
On-line Business	13,065	8,935	42,796	12,220
Gaming	11,551	6,312	35,795	19,274
Other Investments	808	928	1,090	1,406
Corporate	329	611	523	1,631
Net revenues from continuing operations	99,603	103,905	344,621	321,632
Discontinued operations				7,837
Net revenues	$ 99,603	$ 103,905	$ 344,621	$ 329,469
Intercompany net revenues:				
Churchill Downs	$ 197	$ 339	$ 1,623	$ 2,041
Arlington Park	782	551	1,644	807
Calder	393	293	593	483
Fair Grounds	49	6	933	238
Total Racing Operations	1,421	1,189	4,793	3,569
Other Investments	360	351	1,270	1,006
Eliminations	(1,781)	(1,540)	(6,063)	(4,527)
Net revenues from continuing operations				48
Discontinued operations				(48)
	$	$	$	$
Segment EBITDA and net earnings:				
Racing Operations	$ 4,686	$ 7,733	$ 61,148	$ 51,578
On-line Business	2,136	724		