CHURCHILL DOWNS INC
Form 10-Q
July 31, 2013

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 June 30, 2013

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 001-33998

(Exact name of Registrant as specified in its charter)

Kentucky	61-0156015
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
600 North Hurstbourne Parkway, Suite 400 Louisville, Kentucky 40222	(502) 636-4400
(Address of principal executive offices) (zip code)	(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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 July 26, 2013 was 17,924,878 shares.

CHURCHILL DOWNS INCORPORATED
INDEX TO QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended June 30, 2013

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited) (in thousands)

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$38,917	$37,177
Restricted cash	44,058	38,241
Accounts receivable, net of allowance for doubtful accounts of $1,588 at June 30, 2013 and $1,885 at December 31, 2012	46,645	47,152
Deferred income taxes	9,267	8,227
Income taxes receivable	—	2,915
Other current assets	17,368	13,352
Total current assets	156,255	147,064
Property and equipment, net	537,333	542,882
Goodwill	250,414	250,414
Other intangible assets, net	139,372	143,141
Other assets	45,740	30,836
Total assets	$1,129,114	$1,114,337
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$81,518	$62,278
Bank overdraft	7,347	6,027
Purses payable	22,041	19,084
Accrued expenses	53,312	65,537
Current maturities of long-term debt	—	209,728
Income taxes payable	26,888	—
Deferred revenue	11,905	43,916
Total current liabilities	203,011	406,570
Long-term debt, net of current maturities	153,484	—
Other liabilities	23,246	21,030
Deferred revenue	15,805	17,794
Deferred income taxes	24,648	24,648
Total liabilities	420,194	470,042
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; 17,925 shares issued at June 30, 2013 and 17,448 shares issued at December 31, 2012	287,978	274,709
Retained earnings	420,942	369,586
Total shareholders' equity	708,920	644,295
Total liabilities and shareholders' equity	$1,129,114	$1,114,337

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

3

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in thousands, except per common share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net revenues				
Racing	$157,387	$160,440	$185,200	$190,622
Gaming	66,887	51,371	138,976	110,707
Online	52,531	52,702	95,447	96,737
Other	6,968	6,303	12,223	10,946
	283,773	270,816	431,846	409,012
Operating expenses				
Racing	90,160	95,484	131,280	138,472
Gaming	49,624	38,291	100,612	79,231
Online	33,218	32,925	63,580	63,076
Other	6,573	6,866	12,000	12,575
Selling, general and administrative expenses	22,096	20,070	39,654	36,269
Insurance recoveries, net of losses	—	(5,003)	(375)	(6,514)
Operating income	82,102	82,183	85,095	85,903
Other income (expense):				
Interest income	89	35	99	53
Interest expense	(1,256)	(982)	(2,732)	(2,205)
Equity in losses of unconsolidated investments	(631)	(564)	(795)	(784)
Miscellaneous, net	1,023	37	1,030	70
	(775)	(1,474)	(2,398)	(2,866)
Earnings from continuing operations before provision for income taxes	81,327	80,709	82,697	83,037
Income tax provision	(31,029)	(32,133)	(31,340)	(33,107)
Earnings from continuing operations	50,298	48,576	51,357	49,930
Discontinued operations, net of income taxes:				
Loss from operations	—	—	(1)	(1)
Net earnings and comprehensive income	$50,298	$48,576	$51,356	$49,929
Net earnings per common share data:				
Basic	$2.85	$2.82	$2.91	$2.90
Diluted	$2.81	$2.77	$2.87	$2.86
Weighted average shares outstanding:				
Basic	17,268	16,978	17,239	16,940
Diluted	17,921	17,502	17,882	17,443

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

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (in thousands)

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net earnings and comprehensive income	$51,356	$49,929
Adjustments to reconcile net earnings and comprehensive income to net cash provided by operating activities:		
Depreciation and amortization	30,026	27,445
Gain on asset disposition	(1)	(27)
Equity in loss of unconsolidated investments	795	784
Share based compensation	9,577	4,414
Other	421	455
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of business acquisition:		
Restricted cash	(2,179)	(2,409)
Accounts receivable	(17,164)	(20,157)
Other current assets	(4,330)	(4,013)
Accounts payable	16,405	6,488
Purses payable	2,956	2,944
Accrued expenses	(601)	3,798
Deferred revenue	(16,270)	(7,061)
Income taxes receivable and payable	28,763	30,993
Other assets and liabilities	510	2,467
Net cash provided by operating activities	100,264	96,050
Cash flows from investing activities:		
Additions to property and equipment	(23,772)	(16,473)
Acquisition of business, net of cash	—	(6,728)
Acquisition of gaming license	(2,250)	—
Investment in joint venture	(12,500)	(5,400)
Purchases of minority investments	(365)	(1,600)
Assumption of note receivable	—	(1,100)
Proceeds on sale of property and equipment	2	88
Proceeds from insurance recoveries	—	9,870
Change in deposit wagering asset	(3,639)	(6,651)
Net cash used in investing activities	(42,524)	(27,994)
Cash flows from financing activities:		
Borrowings on bank line of credit	350,956	182,545
Repayments on bank line of credit	(407,199)	(247,143)
Change in bank overdraft	1,320	1,280
Payment of dividends	—	(10,110)
Repurchase of common stock	(4,046)	(2,033)
Common stock issued	244	4,416
Windfall tax benefit from share based compensation	1,122	640
Loan origination fees	(2,036)	—
Change in deposit wagering liability	3,639	6,811
Net cash used in financing activities	(56,000)	(63,594)
Net increase in cash and cash equivalents	1,740	4,462
Cash and cash equivalents, beginning of period	37,177	27,325

Cash and cash equivalents, end of period	$38,917	$31,787

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

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (in thousands)

	Six Months Ended June 30,	
	2013	2012
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$1,850	$1,227
State tax credits	$1,298	$—
Income taxes	$636	$593
Schedule of non-cash investing and financing activities:		
Issuance of common stock in connection with the Company LTIP, the New Company LTIP and other restricted stock plans	$26,424	$5,110
Assets acquired and liabilities assumed from acquisition of business:		
Fair value of assets assumed	$—	$9,454
Liabilities assumed	$—	$(395)
Fair value of earn-out liability and accrued purchase price	$—	$(2,331)

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

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, 2012 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. Certain financial statement accounts associated with promotional allowances have been reclassified in prior years to conform to current year presentation. There was no impact from these reclassifications on total assets, total liabilities, total net revenues, operating income or cash flows.

The Company’s revenues and earnings are seasonal in nature, primarily due to its Racing Operations segment. 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. For instance, the Company historically has had fewer live racing days during the first quarter of each year, and the majority of its live racing revenue occurs during the second quarter, with the running of the Kentucky Derby and the Kentucky Oaks. The Company conducted 124 live thoroughbred racing days during the second quarter of 2013, which compares to 122 live thoroughbred racing days during the second quarter of 2012. For the six months ended June 30, 2013, the Company conducted 180 live thoroughbred racings days, which compares to 178 live racing days during the six months ended June 30, 2012. Furthermore, gaming revenues and earnings have historically been higher during the first quarter due to seasonal revenues from the Company's predominately southern gaming properties.

Customer Loyalty Programs

The Company’s customer loyalty programs offer incentives to customers who wager at the Company’s racetracks, through its advance deposit wagering platform, TwinSpires.com, or at its gaming facilities. The TSC Elite program is for pari-mutuel wagering at the Company’s racetracks or through TwinSpires.com. The Player’s Club is offered at the Company’s gaming facilities in Louisiana, Florida and Mississippi. As of June 30, 2013 and December 31, 2012, the outstanding reward point liabilities were $2.2 million and $2.1 million, respectively.

Promotional Allowances

Promotional allowances, which include the Company’s customer loyalty programs, primarily consist of the retail value of complimentary goods and services provided to guests at no charge. The retail value of these promotional allowances is included in gross revenue and then deducted to arrive at net revenue.

During the three months ended June 30, 2013 and 2012, promotional allowances of $9.1 million and $5.1 million, respectively, were included as a reduction to arrive at net revenues. During those periods, Online Business promotional allowances were $3.7 million and $2.3 million, respectively. Gaming promotional allowances were $5.1 million and $2.5 million, respectively. Racing Operations promotional allowances were $0.3 million for each period, respectively. The estimated cost of providing promotional allowances included in operating expenses for the three months ended June 30, 2013 and 2012 totaled $2.4 million and $1.2 million, respectively.

During the six months ended June 30, 2013 and 2012, promotional allowances of $16.4 million and $9.5 million, respectively, were included as a reduction to arrive at net revenues. During those periods, Online Business promotional allowances were $6.1 million and $4.0 million, respectively. Gaming promotional allowances were $9.8 million and $5.0 million, respectively. Racing Operations promotional allowances were $0.5 million for each period, respectively. The estimated cost of providing promotional allowances included in operating expenses for the six months ended June 30, 2013 and 2012 totaled $4.7 million and $2.4 million, respectively.

Comprehensive Income

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2 — ACQUISITIONS AND NEW VENTURES
Riverwalk Casino Hotel Acquisition
On October 23, 2012, the Company completed its acquisition of Riverwalk Casino Hotel ("Riverwalk") in Vicksburg, Mississippi for cash consideration of approximately $145.6 million. The transaction included the acquisition of a 25,000-square-foot casino, an 80-room hotel, a 5,600-square-foot event center and dining facilities on approximately 22 acres of land. The acquisition continued the Company's diversification and growth strategies to invest in assets with an expected yield on investment to enhance shareholder value. The Company financed the acquisition with borrowings under its revolving credit facility. The fair value of the assets acquired and liabilities assumed was included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. In accordance with accounting standards, the Company completed its purchase price allocation during the six months ended June 30, 2013.
For the three and six months ended June 30, 2013, Riverwalk contributed revenues of $14.1 million and $28.2 million, respectively, and earnings from continuing operations before provision for incomes taxes of $3.3 million and $6.5 million, respectively,
Miami Valley Gaming & Racing Joint Venture
During March 2012, the Company announced an agreement to enter into a 50% joint venture with Delaware North Companies Gaming & Entertainment Inc. (“DNC”) to develop a new harness racetrack and video lottery terminal (“VLT”) gaming facility in Monroe, Ohio.
Through the joint venture agreement, the Company and DNC have formed a new company, Miami Valley Gaming & Racing LLC (“MVG”), which will manage both the Company’s and DNC’s interests in the development and operation of the racetrack and VLT gaming facility. The Company and DNC will contribute up to $80.0 million in equity contributions to MVG, with the remaining additional funding of approximately $142 million to be provided under each of the parties' existing credit facilities. On December 21, 2012, MVG completed the purchase of the harness racing licenses and certain assets held by Lebanon Trotting Club Inc. and Miami Valley Trotting Inc. for total consideration of $60.0 million, of which $10.0 million was funded at closing with the remainder funded through a $50.0 million note payable with a six year term effective upon the commencement of gaming operations. In addition, there is a potential contingent consideration payment of $10.0 million based on the financial performance of the facility during the seven year period after gaming operations commence or if a new gaming facility does not open within a 50 mile radius during the five year period from the closing date.
Construction began in December 2012 on the new gaming and racing facility in Monroe, Ohio on a 120-acre site. The new facility is expected to open in December 2013, and will include a 5/8-mile harness racing track and a 186,000-square-foot gaming facility, and approximately 1,600 VLTs, which the joint venture may increase to 1,800 VLTs, dependent on customer demand. MVG will invest approximately $212.0 million in the new facility, which includes a $50.0 million license fee payable to the Ohio Lottery Commission. During the six months ended June 30, 2013, the Company funded $12.5 million in capital contributions to the joint venture.
Pro Forma
The following table illustrates the effect on net revenues, earnings from continuing operations and earnings from continuing operations per common share as if the Company had acquired Riverwalk as of the beginning of 2012. 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 merger with Riverwalk been consummated at the beginning of 2012.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Net revenues	$284,641	$437,546
Earnings from continuing operations	$50,302	$54,188
Earnings from continuing operations per common share		
Basic:		
Earnings from continuing operations	$2.92	$3.15
Diluted:		
Earnings from continuing operations	$2.87	$3.11
Shares used in computing earnings from continuing operations per common share:		
Basic	16,978	16,940
Diluted	17,502	17,443

NOTE 3 — NATURAL DISASTERS

Kentucky Hailstorm

On April 28, 2012, a hailstorm caused damage to portions of Louisville, Kentucky including Churchill Downs Racetrack ("Churchill Downs") and its separate training facility known as Trackside Louisville. Both locations sustained damage to their stable areas as well as damages to administrative offices and several other structures. The Company carries property and casualty insurance, subject to a $0.5 million deductible. During the year ended December 31, 2012, the Company recorded a reduction of property and equipment of $0.6 million and received $1.1 million from its insurance carriers in partial settlement of its claim. The Company is currently working with its insurance carriers to finalize its claim and during the six months ended June 30, 2013, the Company received an additional $0.4 million and recognized insurance recoveries, net of losses of $0.4 million as a component of operating income.

NOTE 4 — INCOME TAXES

The Company’s effective tax rate from continuing operations for the six months ended June 30, 2013 and 2012 was 38% and 40%, respectively. The effective tax rate for the six months ended June 30, 2013 was greater than the Federal statutory rate due to state income taxes, certain expenses that are not deductible for tax purposes and the impact of adjustments made during the recently concluded Internal Revenue Service ("IRS") audit of the 2009 to 2011 fiscal years. These expenses were partially offset by benefits from state movie credits that were purchased, the receipt of a state tax refund from 2008 that had not been recognized and the recognition of previously uncertain tax positions. The effective tax rate for the six months ended June 30, 2012 was greater than the Federal statutory rate due to state income taxes and certain expenses that are not deductible for tax purposes.

Certain tax authorities may periodically audit the Company, and the Company may occasionally be assessed interest and penalties by tax jurisdictions. The Company recognizes accrued interest from uncertain income tax benefits in its income tax provision, while penalties are accrued in selling, general and administrative expenses. During the six months ended June 30, 2013, the Company accrued $0.2 million of interest expense related to uncertain income tax benefits and had gross uncertain tax benefits of $1.9 million as of June 30, 2013. If these benefits had been recognized, there would have been a $0.8 million effect to annual income tax expense.

The Company anticipates a decrease in its unrecognized tax positions of approximately $1.1 million during the next twelve months. The Company recently settled with the IRS on an uncertain tax position related to the timing of the taxation of the Horse Racing Equity Trust Fund (“HRE Trust Fund”) proceeds recognized by the Company in 2011. The settlement resulted in a reduction to the uncertain tax positions of $6.8 million for Federal taxes. The Company has an additional $0.4 million of uncertain tax benefits related to state income taxes on the HRE Trust Fund income. These state taxes will be paid during the three months ending September 30, 2013. The remaining $0.7 million of expected reduction in the unrecognized tax positions over the next twelve months is due to the expiration of statutes of limitations.

During October 2012, the Company funded a $2.9 million income tax payment to the State of Illinois related to a dispute over state income tax apportionment methodology which was recorded as an other asset. The Company filed its state income tax returns related to the years 2002 through 2005 following the methodology prescribed by Illinois statute; however, the State of Illinois has taken a contrary tax position. The Company filed a formal protest with the State of Illinois during the fourth quarter of 2012. The Company does not expect this issue to have a material adverse effect on its business, financial condition or results of operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5 — GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS IMPAIRMENT TEST
Goodwill and indefinite-lived intangible assets are tested for impairment on an annual basis as of March 31. In March 2013, the Company adopted ASU No. 2012-02, Intangibles-Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 simplifies indefinite-lived intangible asset impairment testing by adding a qualitative review step to assess whether a quantitative impairment analysis is necessary. Under the amended rule, a testing methodology similar to that which is performed for goodwill impairment testing will be acceptable for accessing a company's indefinite-lived intangible assets.
The Company completed the required annual impairment tests of goodwill and indefinite-lived intangible assets as of March 31, 2013, and no adjustment to the carrying value of goodwill or indefinite-lived intangible assets was required. The Company assessed its goodwill and indefinite-lived intangible assets by qualitatively evaluating events and circumstances that have both positive and negative factors, including macroeconomic conditions, industry events, financial performance and other changes and concluded that it was more likely than not that fair value of its reporting units was greater than their carrying value, and as such, the Company was not required to calculate the fair value of its reporting units.
There were no changes in the carrying amount of goodwill during the six months ended June 30, 2013. Definite-lived and indefinite-lived intangible assets are summarized as follows:

	June 30, 2013			December 31, 2012		
	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
Definite-lived intangible assets	$75,229	$(33,368)	$41,861	$75,229	$(29,599)	$45,630
Indefinite-lived intangible assets	97,511	—	97,511	97,511	—	97,511
Total	$172,740	$(33,368)	$139,372	$172,740	$(29,599)	$143,141

NOTE 6 — FAIR VALUE OF ASSETS AND LIABILITIES
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. The following table presents the Company’s assets and liabilities measured at fair value as of June 30, 2013 and December 31, 2012, respectively (in thousands):

	Fair Value Hierarchy	June 30, 2013	December 31, 2012
Cash equivalents and restricted cash	Level 1	$44,247	$39,033
Contingent consideration liability	Level 3	$(2,331)	$(2,331)

The Company's cash equivalents and restricted cash, some of which are held in interest-bearing accounts, qualify for Level 1 in the fair value hierarchy which includes unadjusted quoted market prices in active markets for identical assets. The Company's accrued liability for contingent consideration recorded in conjunction with the Bluff Media ("Bluff") acquisition was based on significant inputs not observed in the market and represents a Level 3 fair value measurement. The estimate for the acquisition date fair value of the contingent consideration used an income approach and was based on the probability of achieving enabling legislation which permits Internet poker gaming and the probability-weighted discounted cash flows. Any change in the fair value of the contingent consideration subsequent to the acquisition date will be recognized in the Company’s Condensed Consolidated Statements of Comprehensive Income. The Company currently has no other assets or liabilities subject to fair value measurement on a recurring or non-recurring basis.
The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash Equivalents — The carrying amount reported in the balance sheet for cash equivalents approximates its fair value due to the short-term maturity of these instruments.
Debt — The carrying amounts of the Company's borrowings under its line of credit agreement approximates fair value, based upon current interest rates and represents a Level 2 fair value measurement.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 7- LONG-TERM INCENTIVE PLAN

During February 2013, 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 "New Company LTIP"). As a way to continue to encourage innovation, an entrepreneurial approach, and careful risk assessment, and in order to retain key executives, the New Company LTIP offers long-term incentive compensation to the Company's named executive officers and other key executives ("Grantees") as reported in the Company's Schedule 14A Proxy Statement filing, with the exception of our Chairman of the Board and Chief Executive Officer.

On March 21, 2013, the Grantees received 75,000 restricted shares of the Company's common stock vesting over four years and 282,000 restricted shares of the Company's common stock with vesting contingent upon the Company's common stock reaching certain closing prices on NASDAQ for twenty consecutive trading days. On May 29, 2013, the Company's closing stock price achieved the twenty consecutive trading day closing stock price requirement for 70,500 restricted shares. Per the terms of the New Company LTIP, Grantees will vest in these shares on March 21, 2014.

During the three and six months ended June 30, 2013, the Company recorded $3.7 million and $4.1 million, respectively, of compensation expense related to the New Company LTIP. Unrecognized compensation expense attributable to unvested market condition awards and service period awards was $10.9 million and $4.5 million, respectively, as of June 30, 2013. The weighted average period over which the Company expects to recognize the remaining compensation expense under the market condition awards and service period awards approximates 11 months and 34 months, respectively.

NOTE 8 — EARNINGS PER COMMON SHARE COMPUTATIONS

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator for basic earnings from continuing operations per common share				
Earnings from continuing operations	$50,298	$48,576	$51,357	$49,930
Earnings from continuing operations allocated to participating securities	(1,170)	(722)	(1,197)	(743)
Numerator for basic earnings from continuing operations per common share	$49,128	$47,854	$50,160	$49,187
Numerator for basic earnings per common share				
Net earnings	$50,298	$48,576	$51,356	$49,929
Net earnings allocated to participating securities	(1,170)	(723)	(1,197)	(743)
Numerator for basic net earnings per common share	$49,128	$47,853	$50,159	$49,186
Numerator for diluted earnings from continuing operations per common share	$50,298	$48,576	$51,357	$49,930
Numerator for diluted earnings per common share	$50,298	$48,576	$51,356	$49,929
Denominator for net earnings per common share:				
Basic	17,268	16,978	17,239	16,940
Plus dilutive effect of stock options	242	268	232	247
Plus dilutive effect of participating securities	411	256	411	256
Diluted	17,921	17,502	17,882	17,443
Net earnings per common share:				
Basic				
Earnings from continuing operations and net earnings	$2.85	$2.82	$2.91	$2.90
Diluted				
Earnings from continuing operations and net earnings	$2.81	$2.77	$2.87	$2.86

NOTE 9 — SEGMENT INFORMATION

The Company operates in the following four segments: (1) Racing Operations, which includes Churchill Downs Racetrack ("Churchill Downs"), Arlington International Race Course ("Arlington") and its eleven off-track betting facilities ("OTBs"), Calder Race Course ("Calder") and Fair Grounds Race Course ("Fair Grounds") and the pari-mutuel activity generated at its twelve OTBs; (2) Gaming, which includes video poker and gaming operations at Calder Casino, Fair Grounds Slots, Harlow's, Riverwalk and Video Services, LLC ("VSI"); (3) Online Business, which includes TwinSpires, our Advance Deposit Wagering ("ADW") business, Fair Grounds Account Wagering, Bloodstock Research Information Services, Velocity, a business focused on high wagering-volume international customers and Luckity, an ADW business that offers over 25 unique online games with outcomes based on and determined by pari-mutuel wagers on live horseraces, as well as the Company's equity investment in HRTV, LLC; and (4) Other Investments, which includes United Tote, MVG, Bluff and the Company's other minor investments. Eliminations include the elimination of intersegment transactions.

In order to evaluate the performance of these operating segments internally, the Company uses Adjusted EBITDA (defined as earnings before interest, taxes, depreciation, amortization, insurance recoveries net of losses, HRE Trust

Fund proceeds, share based compensation expenses, pre-opening expenses, including those of its equity investments, the impairment of assets and other charges or recoveries) as a key performance measure of our results of operations. During the three months ended June 30, 2013, the Company implemented the Adjusted EBITDA metric because it believes the inclusion or exclusion of certain recurring and non-recurring items is necessary to provide a more accurate measure of its core operating results and enables management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. Adjusted EBITDA should not be considered as an alternative to operating income as an indicator of performance, as an alternative to cash

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

flows from operating activities as a measure of liquidity, or as an alternative to any other measure provided in accordance with Generally Accepted Accounting Principles ("GAAP"). The Company's calculation of Adjusted EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited. The table below presents information about the reported segments for the three and six months ended June 30, 2013 and 2012 (in thousands):

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net revenues from external customers:				
Churchill Downs	$108,278	$102,874	$110,578	$105,424
Arlington	22,006	22,807	29,247	32,224
Calder	17,031	22,873	19,311	24,741
Fair Grounds	10,072	11,886	26,064	28,233
Total Racing Operations	157,387	160,440	185,200	190,622
Calder Casino	20,466	19,188	40,952	41,067
Fair Grounds Slots	9,978	9,586	22,342	21,617
VSI	9,245	8,814	19,006	18,377
Harlow's Casino	13,097	13,783	28,451	29,646
Riverwalk Casino	14,101	—	28,225	—
Total Gaming	66,887	51,371	138,976	110,707
Online Business	52,531	52,702	95,447	96,737
Other Investments	6,550	5,967	11,649	10,469
Corporate	418	336	574	477
Net revenues from external customers	$283,773	$270,816	$431,846	$409,012
Intercompany net revenues:				
Churchill Downs	$4,607	$4,082	$4,796	$4,268
Arlington	903	1,496	1,040	2,052
Calder	492	586	505	596
Fair Grounds	—	75	833	822
Total Racing Operations	6,002	6,239	7,174	7,738
Online Business	233	230	446	436
Other Investments	1,348	1,072	2,250	1,822
Eliminations	(7,583)	(7,541)	(9,870)	(9,996)
Net revenues	$—	$—	$—	$—
Reconciliation of Adjusted EBITDA to net earnings:				
Racing Operations	$70,517	$67,423	$59,260	$56,370
Gaming	19,365	14,992	41,373	34,765
Online Business	14,091	13,806	25,426	25,434
Other Investments	902	(25		