CHURCHILL DOWNS INC
Form 10-Q
April 27, 2015

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 March 31, 2015

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)	(I.R.S. 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 April 23, 2015 was 17,581,280 shares.

CHURCHILL DOWNS INCORPORATED
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For the Quarter Ended March 31, 2015

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

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$49,525	$67,936
Restricted cash	20,772	26,065
Accounts receivable, net of allowance for doubtful accounts of $4,206 at March 31, 2015 and $4,246 at December 31, 2014	60,361	75,890
Deferred income taxes	17,707	18,519
Income taxes receivable	14,560	29,455
Game technology and rights, net	4,617	530
Other current assets	35,131	24,135
Total current assets	202,673	242,530
Property and equipment, net	590,170	595,315
Investment in and advances to unconsolidated affiliate	108,606	109,548
Goodwill	840,947	840,947
Other intangible assets, net	535,732	549,972
Other assets	24,242	24,192
Total assets	$2,302,370	$2,362,504
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$51,988	$45,597
Bank overdraft	1,291	544
Purses payable	6,162	11,169
Account wagering deposit liabilities	19,294	18,137
Accrued expenses	85,934	93,286
Tax refund due to Big Fish Games former equity holders	6,313	18,087
Deferred revenue	75,758	51,833
Deferred revenue - Big Fish Games	54,623	41,747
Big Fish Games deferred payment, current	27,710	27,180
Current maturities of long-term debt	12,500	11,250
Dividends payable	—	17,419
Total current liabilities	341,573	336,249
Long-term debt, net of current maturities	387,257	459,105
Notes payable	300,000	300,000
Big Fish Games deferred payment, net of current amount due	52,690	51,620
Big Fish Games earnout liability	332,600	327,800
Other liabilities	23,119	21,718
Deferred revenue	17,196	16,489
Deferred income taxes	149,192	149,522
Total liabilities	1,603,627	1,662,503
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; 17,581 shares issued at March 31, 2015 and 17,472 shares issued at December 31, 2014	262,967	262,280
Accumulated other comprehensive loss	(512)	(125)
Retained earnings	436,288	437,846
Total shareholders' equity	698,743	700,001
Total liabilities and shareholders' equity	$2,302,370	$2,362,504

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

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

	Three Months Ended March 31,	
	2015	2014
Net revenues:		
Big Fish Games	$91,903	$—
Casinos	85,415	86,386
TwinSpires	45,315	46,084
Racing	24,438	30,579
Other	3,839	4,092
	250,910	167,141
Operating expenses:		
Big Fish Games	82,159	—
Casinos	60,781	62,046
TwinSpires	31,781	33,577
Racing	36,510	43,220
Other	5,603	5,698
Research and development	10,232	—
Selling, general and administrative expenses	21,572	21,465
Acquisition related charges	6,400	—
Insurance recoveries, net of losses	—	(431)
Operating (loss) income	(4,128)	1,566
Other income (expense):		
Interest income	218	4
Interest expense	(7,484)	(4,973)
Equity in gains of unconsolidated investments	2,948	2,290
Gain on sale of equity investment	5,817	—
Miscellaneous, net	(188)	(25)
	1,311	(2,704)
Loss from continuing operations before income tax benefit	(2,817)	(1,138)
Income tax benefit	1,259	438
Net loss	$(1,558)	$(700)
Net loss per common share data:		
Basic		
Net loss	$(0.09)	$(0.04)
Diluted		
Net loss	$(0.09)	$(0.04)
Weighted average shares outstanding:		
Basic	17,268	17,419
Diluted	17,268	17,419
Other comprehensive loss:		
Foreign currency translation, net of ($328) tax effect	(387)	—
Other comprehensive loss	(387)	—

Comprehensive loss	$(1,945)	$(700)

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
(Unaudited) (in thousands)

	Three Months Ended March 31, 2015	2014
Cash flows from operating activities:		
Net loss	$(1,558)	$(700)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	27,407	15,284
Game technology and rights amortization	725	—
Acquisition related charges	6,400	—
Loss on asset disposals	377	1
Gain on sale of equity investment	(5,817)	—
Equity in gains of unconsolidated investments	(2,948)	(2,290)
Dividend from investment in unconsolidated affiliate	3,500	—
Share-based compensation	2,723	5,241
Other	402	149
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of business acquisition:		
Restricted cash	5,293	6,547
Accounts receivable	(2,244)	(153)
Other current assets	(10,962)	(8,883)
Game technology and rights	(4,812)	—
Accounts payable	9,532	9,519
Purses payable	(5,007)	(5,445)
Accrued expenses	(5,921)	(6,979)
Deferred revenue	55,939	33,099
Income taxes receivable and payable	12,997	6,030
Other assets and liabilities	3,648	511
Net cash provided by operating activities	89,674	51,931
Cash flows from investing activities:		
Additions to property and equipment	(9,784)	(20,169)
Deferred payments to Big Fish Games former equity holders	(959)	—
Investment in joint ventures	(327)	(6,500)
Proceeds from sale of equity investment	6,000	—
Purchases of minority investments	(81)	(273)
Proceeds on sale of property and equipment	67	86
Net cash used in investing activities	(5,084)	(26,856)
Cash flows from financing activities:		
Borrowings on bank line of credit	75,620	93,067
Repayments on bank line of credit	(146,218)	(96,509)
Tax refund payments to Big Fish Games equity holders	(11,773)	—
Change in bank overdraft	747	1,845
Payment of dividends	(17,419)	(15,186)
Repurchase of common stock	(4,870)	(7,402)
Common stock issued	—	68
Windfall tax benefit from share-based compensation	2,834	2,630
Loan origination fees	(26)	(103)
Debt issuance costs	—	(1,029)
Net cash used in financing activities	(101,105)	(22,619)

Net (decrease) increase in cash and cash equivalents	(16,515)	2,456
Effect of exchange rate changes on cash	(1,896)	—
Cash and cash equivalents, beginning of period	67,936	44,708
Cash and cash equivalents, end of period	$49,525	$47,164

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)

	Three Months Ended March 31,	
	2015	2014
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$3,176	$381
Income taxes	$130	$48
Schedule of non-cash investing and financing activities:		
Issuance of common stock in connection with the Company's restricted stock plans	$15,476	$—

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

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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 Generally Accepted Accounting Principles ("GAAP") 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, 2014 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 amounts for the three months ended March 31, 2014 were reclassified to be consistent with current year presentation. There was no impact from these reclassifications on net loss or cash flows.

The Company’s revenues and earnings are seasonal in nature, primarily due to its Racing 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 57 live thoroughbred racing days during the first quarter of 2015, which compares to 97 live thoroughbred racing days during the first quarter of 2014. This decrease is primarily related to the cessation of pari-mutuel operations at Calder Race Course in July 2014. Furthermore, casino revenues and earnings have historically been higher during the first quarter due to seasonal revenues from the Company's predominately southern casino 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 casino 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 casino facilities in Louisiana, Florida, Maine and Mississippi. At each of March 31, 2015 and December 31, 2014, the outstanding reward point liabilities were $1.7 million and were included in accrued expenses.

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 March 31, 2015 and 2014, promotional allowances of $7.1 million and $7.6 million, respectively, were included as a reduction to net revenues. During those periods, TwinSpires promotional allowances were $2.8 million and $2.7 million, respectively. Casino promotional allowances were $4.2 million and $4.7 million, respectively. Racing promotional allowances were $0.1 million for both periods. The estimated cost of providing casino promotional allowances included in operating expenses for the three months ended March 31, 2015 and 2014 totaled $2.0 million and $2.4 million, respectively.

Game Technology and Rights

Game technology and rights are purchased from third-party developers before the games have been produced or launched. The Company pays amounts to these developers as they reach agreed-upon milestones. Once the game is launched, the Company amortizes its game technology and rights on an accelerated basis over the useful life of the game, which is generally one year.

Research and Development

Costs incurred for research and development activities are expensed as incurred. Development costs associated with software to be sold are capitalized when technological feasibility has been established through the date the product is available for general release. At March 31, 2015 and December 31, 2014, there were no material amounts capitalized. For the three months ended March 31, 2015, the Company incurred research and development expenses of $10.2 million within its Big Fish Games, Inc. ("Big Fish Games") segment, which consisted primarily of compensation related expenses.

NOTE 2 — NEW VENTURES & ACQUISITIONS

Big Fish Games

On December 16, 2014, the Company completed the acquisition of Big Fish Games. Big Fish Games, which has locations in

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Seattle, Washington, Oakland, California and Luxembourg, employs approximately 580 employees and develops casual games for PCs and mobile devices worldwide. Big Fish Games operates in three business lines: premium paid, casino and casual free-to-play. The Company acquired Big Fish Games to leverage its casino and casual game experience and assembled workforce, and to position itself in the mobile and online game industry. The Company financed the acquisition with borrowings under its Amended and Restated Credit Agreement (the “Senior Secured Credit Facility”) and the addition of a $200 million Term Loan Facility (“Term Loan”) to the existing Senior Secured Credit Facility.

The purchase price consideration was $838.3 million, composed of $401.7 million in cash, a deferred payment to the founder of Big Fish Games of $85.3 million, payable over three years and recorded at fair value of $78.0 million as of the acquisition date, an estimated payable to the Big Fish Games equity holders related to an income tax refund of $18.1 million and $15.8 million payable in 157,115 shares of the common stock of the Company. In addition, the Company may be required to pay additional variable cash consideration that is contingent upon the achievement of certain performance milestones of Big Fish Games through December 31, 2015 and is limited to a maximum of $350 million based on achievement of certain non-GAAP earnings targets before interest and tax. The estimated fair value of the earnout liability at the acquisition date was $324.7 million. The Company estimated the fair value of the deferred payment and the earnout liability using a discounted cash flows analysis over the period in which the obligation is expected to be settled, and applied a discount rate based on the Company’s cost of debt. The cost of debt as of the closing date was based on the observed market yields of the Company’s Senior Unsecured Notes issued in December of 2013 and was adjusted for the difference in seniority and term of the deferred payment and the earnout liability. See Note 7 for further discussion of the fair value measurement of the deferred payment and the earnout liability.

The fair values recorded were based upon a preliminary valuation. Estimates and assumptions used in such valuation are subject to change, which could be significant, within the measurement period up to one year from the acquisition date. The primary areas of the preliminary valuation that were not finalized at December 31, 2014 related to the fair value of amounts for income taxes, adjustments to working capital, and the final amount of residual goodwill. During the three months ended March 31, 2015, the Company obtained additional information to assist it in determining the values of the liabilities assumed at the acquisition date and changes which occurred during the measurement period. A measurement period adjustment was recorded related to estimated payroll taxes associated with the earnout liability. The Company retroactively adjusted the December 31, 2014 Condensed Consolidated Balance Sheet by increasing deferred income taxes by $0.8 million, increasing goodwill by $1.4 million and increasing accrued expenses by $2.2 million. In addition, the Company made deferred payments of $12.7 million to Big Fish Games former equity holders for the receipt of a federal income tax refund and working capital adjustments related to the acquisition.

The following table summarizes (in thousands) the current fair value of the assets acquired and liabilities assumed, net of cash acquired of $34.7 million, at the date of acquisition.

	Total
Accounts receivable	$19,274
Income taxes receivable	18,087
Prepaid expenses	9,727
Deferred income taxes	1,708
Other assets	1,780
Property and equipment	14,632
Goodwill	540,331
Other intangible assets	362,863
Total assets acquired	968,402
Accounts payable	9,064
Accrued expenses	19,217

Income taxes payable	210
Deferred revenue	37,250
Deferred income taxes	96,182
Other liabilities	2,821
Total liabilities acquired	164,744
Purchase price, net of cash acquired	$803,658

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

During the three months ended March 31, 2015, Big Fish Games contributed revenues of $91.9 million and loss from continuing operations before provision for income taxes of $5.8 million.

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 Big Fish Games as of the beginning of 2014. The unaudited 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 acquisition of Big Fish Games been consummated at the beginning of 2014 (in thousands):

	Three Months Ended March 31, 2014
Net revenues	$241,462
Loss from continuing operations	$(1,638)

Saratoga Harness Racing, Inc. Equity Investment and Management Agreement

On October 28, 2014, the Company signed a definitive purchase agreement to acquire a 25% ownership interest in Saratoga Casino Holdings, LLC ("SCH"), a newly formed entity which will own Saratoga Casino and Raceway in Saratoga Springs, NY; Saratoga Harness Racing, Inc.'s ("SHRI") controlling interest in Saratoga Casino Black Hawk in Black Hawk, Colorado; SHRI's 50% interest in a joint venture with Delaware North Companies to manage the Gideon Putnam Hotel and Resort in Saratoga Springs, New York; its interest in the proposed Capital View Casino & Resort in East Greenbush, New York; and SHRI's interest in a joint venture with Rush Street Gaming to build the proposed Hudson Valley Casino and Resort in Newburgh, New York.

In addition, the Company signed a five-year management agreement pursuant to which it will manage Saratoga Casino and Raceway and Saratoga Casino Black Hawk. Both the funding of the equity investment and the commencement of the management agreement are subject to regulatory approval and licensing requirements in New York and Colorado.

NOTE 3 — NATURAL DISASTERS

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 2012 and 2013, the Company received partial payments for the claim from its insurance carriers. During the three months ended March 31, 2014, the Company received final proceeds of $0.4 million, which it recognized as insurance recoveries, net of losses as a component of operating income. The insurance claims for this event have been finalized, and the Company does not expect to receive additional funds from this claim.

NOTE 4 — INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED AFFILIATE

Miami Valley Gaming Joint Venture

During March 2012, the Company entered into a 50% joint venture with Delaware North Companies Gaming & Entertainment Inc. (“DNC”) to develop a new harness racetrack and video lottery terminal (“VLT”) casino facility in Lebanon, Ohio. Through the joint venture agreement, the Company and DNC formed a new company, Miami Valley Gaming, LLC (“MVG”), to manage both the Company’s and DNC’s interests in the development and operation of the racetrack and VLT casino facility. 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. ("MVG Sellers") 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 casino 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 casino operations commence.

On December 12, 2013, the new facility opened in Lebanon, Ohio on a 120-acre site. The facility includes a 5/8-mile harness racing track and an 186,000-square-foot casino facility with approximately 1,570 VLTs. MVG invested $204.6 million in the new facility, including a $50.0 million license fee to the Ohio Lottery Commission.
Since both DNC and the Company have participating rights over MVG, and both must consent to MVG's operating, investing and financing decisions, the Company accounts for MVG using the equity method. Summarized financial information for MVG is comprised of the following (in thousands):

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets	$22,466	$24,943
Property and equipment, net	128,418	130,868
Other assets, net	105,059	105,059
Total assets	$255,943	$260,870
Liabilities and Members' Equity		
Current liabilities	$15,231	$16,775
Current portion of long-term debt	8,332	8,332
Long-term debt, excluding current portion	25,094	26,584
Other liabilities	75	83
Members' equity	207,211	209,096
Total liabilities and members' equity	$255,943	$260,870

The joint venture's long-term debt consists of a $50.0 million secured note payable from MVG to the MVG Sellers payable quarterly over 6 years through November 2019 at a 5.0% interest rate for which it has funded $10.4 million in principal repayments. During the three months ended March 31, 2015, the Company received distributions from MVG totaling $3.5 million.

	Three Months Ended March 31,	
	2015	2014
Casino revenue	$32,044	$31,163
Non-casino revenue	1,957	1,631
Net revenues	34,001	32,794
Operating and SG&A expenses	24,634	24,211
Depreciation & amortization expenses	3,144	3,367
Pre-opening expenses	—	54
Operating income	6,223	5,162
Interest (expense) income, net	(1,108)	(1,080)
Net income	$5,115	$4,082

The Company's 50% share of MVG's results has been included in our accompanying condensed consolidated financial statements for the three months ended March 31, 2015 and 2014, as follows (in thousands):

	Three Months Ended March 31,	
	2015	2014
Equity in gains of unconsolidated investments	$2,558	$2,041

NOTE 5 — INCOME TAXES

The Company’s effective tax rate from continuing operations for the three months ended March 31, 2015 and 2014 was 45% and 38%, respectively. The effective tax rate for the three months ended March 31, 2015 was greater than the Federal statutory rate due to expenses associated with the revaluation of liabilities associated with the purchase of Big Fish Games, state and local income tax expense and certain expenses that were not deductible for tax purposes. These additional tax expenses were partially mitigated by the manufacturing deduction that will be available associated with the development of social games by Big Fish Games.

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 three months ended March 31, 2015, the Company recorded $0.1 million interest expense related to uncertain income tax benefits and had gross uncertain tax benefits of $3.0 million as of March 31, 2015. If these benefits had been recognized, there would have been a $1.6 million decrease to annual income tax expense. $1.1 million of the uncertain tax positions were related to issues that existed prior to the acquisition of Big

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Fish Games, and to the extent that these liabilities are incurred, they would be reimbursed by the pre-acquisition shareholders of Big Fish Games, in conjunction with a tax indemnity agreement.

During October 2012, the Company funded a $2.9 million income tax payment to the State of Illinois related to a dispute over its 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 and results of operations.

NOTE 6 — GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS IMPAIRMENT TEST

In accordance with ASU No. 2011-08, Intangibles-Goodwill and Other: Testing Goodwill for Impairment and ASU No. 2012-02, Intangibles-Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment, the Company completed the required annual impairment tests of goodwill and indefinite-lived intangible assets as of March 31, 2015, 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 performing its step one fair value calculations on a quantitative basis for each of its reporting units and indefinite-lived intangible assets. The Company concluded that the fair values of its reporting units and indefinite-lived intangible assets exceeded their carrying value and therefore step two of the assessment was not required. Goodwill and definite-lived and indefinite-lived intangible assets are summarized as follows (in thousands):

	Big Fish Games	Casinos	TwinSpires	Racing	Other Investments	Total
Goodwill as of December 31, 2014	$540,331	$117,659	$127,364	$51,659	$3,934	$840,947
Adjustments	—	—	—	—	—	—
Goodwill as of March 31, 2015	$540,331	$117,659	$127,364	$51,659	$3,934	$840,947

	March 31, 2015			December 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
Definite-lived intangible assets	$238,865	$(61,476)	$177,389	$238,865	$(47,236)	$191,629
Indefinite-lived intangible assets	358,343	—	358,343	358,343	—	358,343
Total	$597,208	$(61,476)	$535,732	$597,208	$(47,236)	$549,972

NOTE 7 — 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 tables present the Company’s assets and liabilities measured at fair value as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015		
	Level 1	Level 2	Level 3
Cash equivalents and restricted cash	$21,100	$—	$—
Big Fish Games deferred payments	—	—	80,400
Big Fish Games earnout liability	—	—	332,600
Senior unsecured notes	—	305,250	—
Bluff contingent consideration liability	—	—	2,331

Total	$21,100	$305,250	$415,331

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	December 31, 2014		
	Level 1	Level 2	Level 3
Cash equivalents and restricted cash	$27,464	$—	$—
Big Fish Games deferred payments	—	—	78,800
Big Fish Games earnout liability	—	—	327,800
Senior unsecured notes	—	299,250	—
Bluff contingent consideration liability	—	—	2,331
Total	$27,464	$299,250	$408,931

The following table presents the change in fair value of the Company's level 3 liabilities during the three months ended March 31, 2015 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Big Fish Games Deferred Payments	Big Fish Games Earnout Liability	Bluff Contingent Consideration	Total
Balance as of December 31, 2014	$78,800	$327,800	$2,331	$408,931
Change in fair value	1,600	4,800	—	6,400
Balance as of March 31, 2015	$80,400	$332,600	$2,331	$415,331

The Company's cash equivalents and restricted cash, 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 a 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 of the contingent consideration liability uses an income approach and is based on the probability of achieving enabling legislation for Bluff which permits Internet poker gaming and the probability-weighted discounted cash flows. Any change in the fair value of the Bluff contingent consideration subsequent to the acquisition date will be recognized in the Company's Consolidated Statements of Comprehensive Loss.

The Company estimated the fair value of the Big Fish Games deferred payment and earnout liability as of March 31, 2015 using a discounted cash flows analysis over the period in which the obligation is expected to be settled, and applied a discount rate based on the Company's cost of debt. The cost of debt was based on the observed market yields of the Company's Senior Unsecured Notes issued in December of 2013 and represents a Level 3 fair value measurement and was adjusted for the difference in seniority and term of the deferred payment and earnout liability. The change in fair values of the Big Fish Games deferred payment and earnout liability of $6.4 million during the three months ended March 31, 2015 was recorded as acquisition related charges in the Consolidated Statements of Comprehensive Loss. Changes to the Company's cost of debt could lead to a different fair value estimate for the deferred payment and earnout liability.

The Company's $300 million par value Senior Unsecured Notes represent a Level 2 fair value measurement. The fair value of the Senior Unsecured Notes is disclosed based on unadjusted quoted prices for similar liabilities in markets that are not active.

The Company currently has no other assets or liabilities subject to fair value measurement on a 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.

During the three months ended March 31, 2015, the Company did not measure any assets at fair value on a non-recurring basis.

NOTE 8 — LONG-TERM INCENTIVE PLAN

During 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

During the three months ended March 31, 2015, Grantees and certain Big Fish Games employees received approximately 131,000 restricted shares of the Company's common stock vesting over service periods ranging from seven months to three years. During 2013, the Grantees received 92,000 restricted shares of the Company's common stock vesting over approximately four years and 324,000 restricted shares of the Company's common stock with vesting contingent upon the Company's common stock reaching certain closing prices on NASDAQ for 20 consecutive trading days.

During the years ended December 31, 2014 and 2013, the Company's closing stock price achieved the twenty consecutive trading days closing stock price requirement for 239,500 restricted shares. During the three months ended March 31, 2015, the Company's closing stock price achieved the stock price requirement for the final 84,500 restricted shares.

During the three months ended March 31, 2015, the Company recognized $1.8 million of compensation expense included in selling general and administrative expenses related to service period awards under the New Company LTIP, which includes compensation expense for the Big Fish Games employee grant. As of March 31, 2015, unrecognized compensation expense attributable to unvested service period awards was $13.6 million. The weighted average period over which the Company expects to recognize the remaining compensation expense under service period awards approximates 20 months at March 31, 2015. There is no remaining unrecognized expense under the market condition awards.

NOTE 9 — LOSS PER COMMON SHARE COMPUTATIONS

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

	Three Months Ended March 31,	
	2015	2014
Numerator basic and diluted loss per common share	$(1,558)	$(700)
Denominator basic and diluted net loss per common share	17,268	17,419
Loss per common share:		
Basic	$(0.09)	$(0.04)
Diluted	$(0.09)	$(0.04)

Options to purchase 0.4 million and 0.5 million shares and participating securities for the three months ended March 31, 2015 and 2014, respectively were excluded from the computation of diluted loss per common shares since their effect was anti-dilutive because of the net loss from continuing operations for the period.

NOTE 10 — SEGMENT INFORMATION

The Company operates in the following five segments: (1) Big Fish Games; (2) Casinos, which includes video poker and casino operations at Calder Casino, Fair Grounds Slots, Harlow’s Casino Resort & Spa ("Harlow's"), the Company's equity investment in MVG, Oxford Casino (“Oxford”), Riverwalk Casino Hotel ("Riverwalk") and Video Services, LLC (“VSI”); (3) TwinSpires, which includes TwinSpires, our Advance Deposit Wagering (“ADW”) business, Fair Grounds Account Wagering, Bloodstock Research Information Services and Velocity, a business focused on high wagering-volume international customers, as well as the Company's equity investment in HRTV, LLC, prior to its sale during January 2015; (4) Racing, which includes Churchill Downs, Arlington International Race Course ("Arlington") and its ten off-track betting facilities ("OTBs"), and Fair Grounds Race Course ("Fair Grounds") and the pari-mutuel activity generated at its twelve OTBs; and (5) Other Investments, which includes United Tote, 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's chief operating decision maker uses Adjusted EBITDA (defined as earnings before interest, taxes, depreciation, amortization, and adjusted for insurance recoveries net of losses, share-based compensation expenses, pre-opening expenses, the impairment of assets, Big Fish Games transaction expenses, Big Fish Games acquisition-related charges, changes in Big Fish Games deferred revenue and other charges or recoveries). Big Fish Games transaction expenses include legal, accounting and other deal-related expenses. Big Fish Games acquisition-related charges reflect the change in fair value of the Big Fish Games earnout and deferred consideration liability recorded each reporting period. Changes in Big Fish Games deferred revenue reflect reductions in revenue from business combination accounting rules when deferred revenue balances assumed as part of an acquisition are adjusted to their fair values. Fair value approximates the cost of fulfilling the service obligation, plus a reasonable profit margin. Adjusted EBITDA also includes 50% of the operating income or loss of our joint venture, MVG. The Company utilizes the Adjusted EBITDA metric because it believes the inclusion

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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 flows from operating activities as a measure of liquidity, or as an alternative to any other measure provided in accordance with 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 months ended March 31, 2015 and 2014 (in thousands):

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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	Three Months Ended March 31,	
	2015	2014
Net revenues from external customers:		
Big Fish Games	$91,903	$—
Casinos:		
Calder Casino	20,379	20,583
Fair Grounds Slots	11,482	11,784
VSI	9,184	8,754
Harlow's Casino	13,680	14,451
Oxford Casino	17,503	17,519
Riverwalk Casino	13,187	13,295
Total Casinos	85,415	86,386
TwinSpires	45,315	46,084
Racing:		
Churchill Downs	2,008	2,142
Arlington	5,812	6,122
Calder	674	8,024
Fair Grounds	15,944	14,291
Total Racing	24,438	30,579
Other Investments	3,605	3,837
Corporate	234	255
Net revenues from external customers	$250,910	$167,141
Intercompany net revenues:		
TwinSpires	$297	$230
Racing:		
Churchill Downs	233	228
Arlington	958	1,017
Calder	—	356
Fair Grounds	858	732
Total Racing	2,049	2,333
Other Investments	795	898
Eliminations	(3,141)	(3,461)
Net revenues	$—	$—
Reconciliation of segment Adjusted EBITDA to net loss:		
Big Fish Games	$20,026	$—
Casinos	28,787	27,251
TwinSpires	11,190	9,950
Racing	(9,197)	(10,250)
Other Investments	(668)	(1,353)
Total segment Adjusted EBITDA	50,138	25,598
Corporate Adjusted EBITDA	(1,867)	(1,106)
Insurance recoveries, net of losses	—	431
Big Fish Games acquisition charges	(6,400)	—
Big Fish Games changes in deferred revenue	(12,876)	—
Share-based compensation	(2,723)	(5,241)
Pre-opening costs	—	(27)

MVG interest expense, net	(554)	(540)
Other charges and recoveries	6,138	—
Depreciation and amortization	(27,407)	(15,284)
Interest (expense) income, net	(7,266)	(4,969)
Income tax benefit	1,259	438
Loss from continuing operations	(1,558)	(700)
Foreign currency translation, net of ($328) tax effected	(387)	—
Comprehensive loss	$(1,945)	$(700)

The table below presents equity in earnings of unconsolidated investments included in the Company's reported segments for the three months ended March 31, 2015 and 2014 (in thousands):

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(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Casinos	$2,558	$2,041
TwinSpires	—	220
Other Investments	390	29
	$2,948	$2,290

The table below presents total assets for the reported segments (in thousands):

	March 31, 2015	December 31, 2014
Total assets:		
Big Fish Games	$1,018,086	$1,009,668
Casinos	616,201	621,240
TwinSpires	183,175	182,322
Racing	455,079	518,517
Other Investments	29,829	30,757
	$2,302,370	$2,362,504

The table below presents total capital expenditures for the reported segments for the three months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31,	
	2015	2014
Capital expenditures:		
Big Fish Games	$1,163	$—
Casinos	4,261	2,250
TwinSpires	943	1,592
Racing	3,264	14,037
Other Investments	153	2,290
	$9,784	$20,169

NOTE 11 — COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company records an accrual for legal contingencies to the extent that it concludes that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Except as disclosed below, no estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made at this time regarding the matters specifically described below. We do not believe that the final outcome of these matters will have a material adverse impact on our business, financial condition and results of operations.

Big Fish Casino

On April 17, 2015, Cheryl Kater, by and through counsel, filed a Complaint - Class Action styled Cheryl Kater v. Churchill Downs Incorporated. Plaintiff, Cheryl Kater, filed the purported class action lawsuit in the United States District Court, for the Western District of Washington, in Seattle, alleging, among other claims, that the Company’s “Big Fish Casino” violates Washington law, including the Washington Consumer Protection Act, by facilitating unlawful gambling through its virtual casino games (namely the Company’s slots, blackjack, poker, and roulette games offered through Big Fish Casino). This litigation was just filed, and Plaintiff, through counsel, did not specify or claim a specific amount of damages in the Complaint. Therefore, the Company is unable to reasonably estimate the magnitude of any settlement or potential damages. As a result, the Company does not, at this time, know the extent to which, if at all, this litigation will have a material impact on its business or financial results.

Louisiana Horsemens' Purses

On April 21, 2014, John L. Soileau and other individuals filed a Petition for Declaratory Judgment, Permanent Injunction, and Damages - Class Action styled John L. Soileau, et. al. versus Churchill Downs Louisiana Horseracing, LLC, Churchill Downs

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Louisiana Video Poker Company, LLC (Suit No. 14-3873) in the Parish of Orleans, State of Louisiana. The petition defines the “alleged plaintiff class” as quarter-horse owners, trainers and jockeys that have won purses at the “Fair Grounds Race Course & Slots” facility in New Orleans, Louisiana since the first effective date of La. R.S. 27:438 and specifically since 2008. The petition alleges that Churchill Downs Louisiana Horseracing, L.L.C. and Churchill Downs Louisiana Video Poker Company, L.L.C. (“Fair Grounds”) have collected certain monies through video draw poker devices that constitute monies earned for purse supplements and all of those supplemental purse monies have been paid to thoroughbred horsemen during Fair Grounds’ live thoroughbred horse meets while La. R.S. 27:438 requires a portion of those supplemental purse monies to be paid to quarter-horse horsemen during Fair Grounds’ live quarter-horse meets. The petition requests that the Court declare that Fair Grounds violated La. R.S. 27:438, issue a permanent and mandatory injunction ordering Fair Grounds to pay all future supplements due to the plaintiff class pursuant to La. R.S. 27:438, and to pay the plaintiff class such sums as it finds to reasonably represent the value of the sums due to the plaintiff class. On August 14, 2014, the plaintiffs filed an amendment to their petition naming the Horsemen’s Benevolent and Protective Association 1993, Inc. (“HBPA”) as an additional defendant and alleging that HBPA is also liable to plaintiffs for the disputed purse funds. On October 9, 2014, HBPA and Fair Grounds filed exceptions to the suit, including an exception of primary jurisdiction seeking a referral to the Louisiana Racing Commission. By Judgment dated November 21, 2014, the District Court granted the exception of primary jurisdiction and referred the matter to the Louisiana Racing Commission. On January 26, 2015, the Louisiana Fourth Circuit Court of Appeals denied the plaintiffs’ request for supervisory review of the Judgment. This matter is currently awaiting review by the Louisiana Racing Commission.

Illinois Department of Revenue

In October 2012, the Company filed a verified complaint for preliminary and permanent injunctive relief and for declaratory judgment (the “Complaint”) against the Illinois Department of Revenue (the “Department”). The Company's complaint was filed in response to Notices of Deficiency issued by the Department on March 18, 2010, and September 6, 2012. In response to said Notices of Deficiency, the Company, on October 4, 2012, issued a payment in protest in the amount of $2.9 million (the “Protest Payment”) under the State Officers and Employees Money Disposition Act and recorded this amount in other assets. The Company subsequently filed its complaint in November 2012 alleging that the Department erroneously included handle, instead of the Company's commissions from handle, in the computation of the Company's sales factor (a computation of the Company's gross receipts from wagering within the State of Illinois) for determining the applicable tax owed. On October 30, 2012, the Company's Motion for Preliminary Injunctive Relief was granted, which prevents the Department from depositing any monies from the Protest Payment into the State of Illinois General Fund and from taking any further action against the Company until the Circuit Court takes final action on the Company's Complaint. If successful with its Complaint, the Company will be entitled to a full or partial refund of the Protest Payment from the Department. On December 3, 2014, the Company filed its Motion for Summary Judgment on all material aspects of its case. Also on December 3, 2014, the Department, by and through its counsel, the Illinois Attorney General, filed its Cross-Motion for Summary Judgment. This matter remains pending before the Tax and Miscellaneous Remedies Section of the Circuit Court of Cook County. Oral arguments on the parties’ Motions for Summary Judgment occurred on March 5, 2015. The Company is currently awaiting a ruling by the Tax and Miscellaneous Remedies Section of the Circuit Court of Cook County.

Kentucky Downs

On September 5, 2012, Kentucky Downs Management, Inc. (“KDMI”) filed a petition for declaration of rights in Kentucky Circuit Court located in Simpson County, Kentucky styled Kentucky Downs Management Inc. v. Churchill Downs Incorporated (Civil Action No. 12-CI-330) (the “Simpson County Case”) requesting a declaration that the Company does not have the right to exercise its put right and require Kentucky Downs, LLC (“Kentucky Downs”) and/or Kentucky Downs Partners, LLC (“KDP”) to purchase the Company’s ownership interest in Kentucky Downs. On September 18, 2012, the Company filed a complaint in Kentucky Circuit Court located in Jefferson County, Kentucky, styled Churchill Downs Incorporated v. Kentucky Downs, LLC; Kentucky Downs Partners, LLC; and Kentucky Downs Management Inc. (Civil Action No. 12-CI-04989) (the “Jefferson County Case”) claiming that

Kentucky Downs and KDP had breached the operating agreement for Kentucky Downs and requesting a declaration that the Company had validly exercised its put right and a judgment compelling Kentucky Downs and/or KDP to purchase the Company's ownership interest in Kentucky Downs pursuant to the terms of the applicable operating agreement. On October 9, 2012, the Company filed a motion to dismiss the Simpson County Case and Kentucky Downs, KDP and KDMI filed a motion to dismiss the Jefferson County Case. A hearing for the motion to dismiss in the Simpson County Case occurred November 30, 2012. At that hearing the Company's motion to dismiss the Simpson County Case was denied. Subsequently, Kentucky Downs, KDMI and KDP's motion to dismiss the Jefferson County Case was granted on January 23, 2013, due to the Simpson County Circuit Court's assertion of jurisdiction over the dispute. On May 16, 2013, Kentucky Downs, KDP and KDMI filed a Motion for Summary Judgment against the Company and Turfway Park, LLC. On September 19, 2013, the Company filed its response to the Motion for Summary Judgment. A hearing occurred before the Simpson County Circuit Court on September 23, 2013, on the Kentucky Downs, KDP and KDMI Motion for Summary Judgment. All parties appeared before the Simpson County Court and oral arguments were heard. On October 31, 2013, the Simpson County Court entered an Order Denying Petitioners' (Kentucky Downs Management

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Inc. et al.) Motion for Summary Judgment. The case will now move forward through discovery and to trial. No trial date has been set.

Texas Pari-Mutuel Wagering

On September 21, 2012, the Company filed a lawsuit in the United States District Court for the Western District of Texas styled Churchill Downs Incorporated; Churchill Downs Technology Initiatives Company d/b/a TwinSpires.com v. Chuck Trout, in his official capacity as Executive Director of the Texas Racing Commission; Gary P. Aber, Susan Combs, Ronald F. Ederer, Gloria Hicks, Michael F. Martin, Allan Polunsky, Robert Schmidt, John T. Steen III, Vicki Smith Weinberg, in their official capacity as members of the Texas Racing Commission (Case No. 1:12-cv-00880-LY) challenging the constitutionality of a Texas law requiring residents of Texas that desire to wager on horseraces to wager in person at a Texas race track. In addition to its complaint, on September 21, 2012, the Company filed a motion for preliminary injunction seeking to enjoin the state from taking any action to enforce the law in question. In response, on October 9, 2012, counsel for the state assured both the Company and the court that the state would not enforce the law in question against the Company without prior notice, at which time the court could then consider the motion for preliminary injunction. On April 15, 2013, both parties filed their opening briefs, and a trial was held on May 2, 2013. On September 23, 2013, the United States District Court for the Western District of Texas ruled against the Company and upheld the Texas law at issue. Subsequently, on September 25, 2013, the Company ceased taking wagers from Texas residents via TwinSpires.com and returned deposited funds to Texas residents. The Company filed a motion for an expedited hearing in the United States Court of Appeals, which was granted on October 17, 2013. The Texas Racing Commission, et. al., filed an appellate brief on December 13, 2013. The Company filed its brief in reply on December 30, 2013. Oral arguments were heard before the United States Court of Appeals for the Fifth Circuit on February 4, 2014. On September 25, 2014, the United States Court of Appeals for the Fifth Circuit issued an unpublished opinion affirming the United States District Court for the Western District of Texas and its ruling in favor of the Texas Racing Commission.

There are no other material pending legal proceedings.

NOTE 12 — RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance cost to be presented in the balance sheet as a direct deduction of the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred asset. The new standard will become effective for annual fiscal periods beginning after December 15, 2015. The Company does not expect adoption to have a material impact on the Company's business, financial condition or results of operations.

In August 2014, the FASB issued ASU No. 2014-15, Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern, which explicitly requires management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. Management will be required to assess, in each interim and annual period, if there is substantial doubt of an entity's ability to continue as a going concern as evidenced by relevant known or knowable conditions including an entity's ability to meet its future obligations. Management will be required to provide disclosures regardless of whether substantial doubt is alleviated by management's plans. The guidance will become effective for annual fiscal periods ending after December 15, 2016.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The revised guidance will become effective for annual periods beginning after December 15, 2017 and will be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is assessing the impact of the new accounting guidance and cannot currently estimate the financial statement impact of adoption.

NOTE 13 — CALDER RACING

On July 1, 2014, the Company finalized an agreement with The Stronach Group (“TSG”) under which TSG operates, at TSG’s expense, live racing and maintains certain facilities used for racing and training at Calder. The agreement, which expires on December 31, 2020, involves a lease to TSG of Calder’s racetrack and certain other racing and training facilities. TSG operates live horse racing at Calder, under Calder’s racing permits, in compliance with all applicable laws and licensing requirements and maintains the racing and training facilities at Calder on a year-round basis. Furthermore, TSG is responsible for substantially all of the direct and indirect costs associated with these activities and receives the associated revenues. The Company continues to own and operate the Calder Casino.

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(Unaudited)

As a result of the agreement with TSG, Calder recognized accelerated depreciation expense of approximately $2.4 million during the year ended December 31, 2014 primarily related to Calder's barns, which were not expected to be utilized subsequent to December 31, 2014. During the three months ended March 31, 2015, the Company continued its assessment of potential alternative uses of its Calder facility not associated with the lease agreement, and as a result, Calder commenced the demolition of its barns not associated with the TSG agreement. Calder expects to fund and capitalize approximately $0.8 million in expenditures during 2015 for construction costs to remove the barns and to prepare the stable area for alternate future uses.

NOTE 14 — HRTV EQUITY INVESTMENT DIVESTITURE

As part of the TSG agreement related to the cessation of Calder pari-mutuel operations during 2014, the Company modified its HRTV operating and ownership agreement with TSG resulting in the divestiture of the Company's interest in HRTV effective January 2, 2015. During January 2015, we received $6.0 million in proceeds from the sale of the ownership interest. The Company recorded a gain of $5.8 million in its Other Investments segment, which has been excluded from Segment Adjusted EBITDA and is included in other charges and recoveries in the reconciliation of Segment Adjusted EBITDA to Comprehensive Loss.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information set forth in this discussion and analysis contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act. The reader is cautioned that such forward-looking statements are based on information available at the time and/or management's good faith belief with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. Forward-looking statements are typically identified by the use of terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "predict," "project," "should," "will," and similar words, although some forward-l statements are expressed differently.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from expectations include: the effect of global economic conditions, including any disruptions in the credit markets; a decrease in consumers' discretionary income; the effect (including possible increases in the cost of doing business) resulting from future war and terrorist activities or political uncertainties; the impact of increasing insurance costs; the impact of interest rate fluctuations; maintaining favorable relationships we have with third-party mobile platforms, the inability to secure new content from third-party developers on favorable terms, keeping our games free from programming errors or flaws, the effect if smart phone and tablet usage does not continue to increase; the financial performance of our racing operations; the impact of casino competition (including lotteries, online gaming and riverboat, cruise ship and land-based casinos) and other sports and entertainment options in the markets in which we operate; our ability to maintain racing and gaming licenses to conduct our businesses; the impact of live racing day competition with other Kentucky, Illinois, Louisiana or Ohio racetracks within those respective markets; the impact of higher purses and other incentives in states that compete with our racetracks; costs associated with our efforts in support of alternative gaming initiatives; costs associated with customer relationship management initiatives; a substantial change in law or regulations affecting pari-mutuel or casino activities; a substantial change in allocation of live racing days; changes in Kentucky, Illinois or Louisiana law or regulations that impact revenues or costs of racing in those states; the presence of wagering and casino operations at other states' racetracks and casinos near our operations; our continued ability to effectively compete for the country's horses and trainers necessary to achieve full field horse races; our continued ability to grow our share of the interstate simulcast market and obtain the consents of horsemen's groups to interstate simulcasting; our ability to enter into agreements with other industry constituents for the purchase and sale of racing content for wagering purposes; our ability to execute our acquisition strategy and to complete or successfully operate acquisitions and planned expansion projects including the effect of required payments in the event we are unable to complete acquisitions; our ability to successfully complete any divestiture transaction; market reaction to our expansion projects; the inability of our totalisator company, United Tote, to maintain its processes accurately, keep its technology current or maintain its significant customers; our accountability for environmental contamination; the ability of Big Fish Games or TwinSpires to prevent security breaches within their online technologies; the loss of key personnel; the impact of natural and other disasters on our operations and our ability to obtain insurance recoveries in respect of such losses (including losses related to business interruption); our ability to integrate any businesses we acquire into our existing operations, including our ability to maintain revenues at historic or anticipated levels and achieve anticipated cost savings; the impact of wagering laws, including changes in laws or enforcement of those laws by regulatory agencies; the outcome of pending or threatened litigation; changes in our relationships with horsemen's groups and their memberships; our ability to reach agreement with horsemen's groups on future purse and other agreements (including, without limitation, agreements on sharing of revenues from casinos and advance deposit wagering); the effect of claims of third parties to intellectual property rights; and the volatility of our stock price.

You should read this discussion in conjunction with the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2014 for further information, including Part I – Item 1A, "Risk Factors" of our Form 10-K for a discussion regarding some of the reasons that actual results may be materially different from those we anticipate.

Overview

We are one of the world's largest producers and distributors of online and mobile casual games. We are also a diversified provider of casino gaming, online account wagering on horseracing and pari-mutuel horseracing.

We operate in five operating segments as follows:

1. Big Fish Games, Inc ("Big Fish Games"), which:
   - Is headquartered in Seattle, Washington with locations in Oakland, California and Luxembourg, which we acquired on December 16, 2014. Big Fish Games is a producer of premium paid, casual free-to-play and casino-style games for PCs and mobile devices.
2. Casinos, which includes:
   - Oxford Casino ("Oxford") in Oxford, Maine, which operates approximately 860 slot machines, 26 table games and various dining facilities;
   - Riverwalk Casino Hotel ("Riverwalk") in Vicksburg, Mississippi, which operates approximately 680 slot machines, 16 table games, a five story, 80-room attached hotel, a multi-functional event center and dining facilities;
   - Harlow’s Casino Resort & Spa (“Harlow’s”) in Greenville, Mississippi, which operates approximately 760 slot machines, 13 table games, a five story, 105-room attached hotel and dining facilities;
   - Calder Casino, a slot facility in Florida adjacent to Calder, which operates approximately 1,100 slot machines. Results for the three months ended March 31, 2014 included a poker room operation branded “Studz Poker Club,” which ceased operations on June 30, 2014;
   - Fair Grounds Slots, a slot facility in Louisiana adjacent to Fair Grounds, which operates approximately 620 slot machines;
   - Video Services, LLC (“VSI”), the owner and operator of approximately 710 video poker machines in Louisiana; and
   - Our equity investment in Miami Valley Gaming, LLC ("MVG"), a 50% joint venture harness racetrack and video lottery terminal facility in Lebanon, Ohio, which opened December 12, 2013. MVG has approximately 1,570 video lottery terminals, a racing simulcast center and a harness racetrack.
3. TwinSpires, which includes:
   - TwinSpires, an Advance Deposit Wagering (“ADW”) business that is licensed as a multi-jurisdictional simulcasting and interactive wagering hub in the state of Oregon;
   - Fair Grounds Account Wagering (“FAW”), an ADW business that is licensed in the state of Louisiana;
   - Velocity, a business that is licensed in the British Dependency Isle of Man focusing on high wagering-volume international customers; and
   - Bloodstock Research Information Services (“BRIS”), a data service provider for the equine industry.
4. Racing, which includes:
   - Churchill Downs Racetrack (“Churchill Downs”) in Louisville, Kentucky, an internationally known thoroughbred racing operation and home of the Kentucky Oaks and Kentucky Derby since 1875;
   - Arlington International Race Course (“Arlington”), a thoroughbred racing operation in Arlington Heights along with ten off-track betting facilities (“OTBs”) in Illinois;
   - Calder Race Course (“Calder”), a thoroughbred racing operation in Miami Gardens, Florida which ceased pari-mutuel operations on July 1, 2014; and
   - Fair Grounds Race Course (“Fair Grounds”), a thoroughbred racing operation in New Orleans along with twelve OTBs in Louisiana.
5. Other Investments, which includes:
   - United Tote Company and United Tote Canada (collectively “United Tote”), which manufacture and operate pari-mutuel wagering systems for racetracks, OTBs and other pari-mutuel wagering business;
   - Bluff Media (“Bluff”), a multimedia poker content brand and publishing company; and
   - Our other minor investments.

In order to evaluate the performance of these operating segments internally, we use Adjusted EBITDA (defined as earnings before interest, taxes, depreciation, amortization, and adjusted for insurance recoveries net of losses, share-based compensation expenses, pre-opening expenses, the impairment of assets, Big Fish Games transaction expenses, Big Fish Games acquisition-related charges, changes in Big Fish Games deferred revenue and other charges or recoveries). Big Fish Games transaction expenses include legal, accounting and other deal-related expenses. Big Fish Games acquisition-related charges reflect the change in fair value of the Big Fish Games earnout and deferred consideration liability recorded each reporting period. Changes in Big Fish Games deferred revenue reflect reductions in revenue from business combination accounting rules when deferred revenue balances assumed as part of an acquisition are adjusted to their fair values. Fair value approximates the cost of fulfilling the service obligation, plus a reasonable profit margin. Adjusted EBITDA also includes 50% of the operating income or loss of our joint venture, MVG. We believe that the use of Adjusted EBITDA as a key performance measure of the results of operations enables management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner.

During the three months ended March 31, 2015, total handle for the pari-mutuel industry, according to figures published by Equibase, decreased 5.2%, compared to the same period of 2014. TwinSpires handle increased $2.3 million, or 1.1%, during the three months ended March 31, 2015, compared to the same period in 2014. Pari-mutuel handle from our Racing segment decreased 22.4% during the three months ended March 31, 2015, compared to the same period of 2014 primarily due to the cessation of pari-mutuel operations at Calder on July 1, 2014.

Revenues and earnings associated primarily with our Racing segment are seasonal in nature. Therefore, Racing 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, we historically have had fewer live racing days during the first quarter of each year, and the majority of our live racing revenue occurs during the second quarter, with the running of the Kentucky Derby and the Kentucky Oaks. We conducted 57 live thoroughbred racing days during the first quarter of 2015, which compares to 97 live thoroughbred racing days during the first quarter of 2014. This decrease is primarily related to the cessation of pari-mutuel operations at Calder Race Course in July 2014. Furthermore, Casino revenues and earnings have historically been higher during the first quarter due to seasonal revenues from our predominately southern gaming properties.

We believe that, despite uncertain economic conditions, we are in a strong financial position. As of March 31, 2015, there was $289.9 million of borrowing capacity available under our Senior Secured Credit Facility. To date, we have not experienced any limitations in our ability to access this source of liquidity.

Recent Developments

HRTV Equity Investment Divestiture

As part of an agreement with The Stronach Group ("TSG") related to the cessation of Calder pari-mutuel operations, we modified our HRTV operating and ownership agreement with TSG resulting in the divestiture of the Company’s interest in HRTV effective January 2, 2015. During January 2015, we received $6.0 million in proceeds from the sale of our ownership interest. We recorded a gain of $5.8 million during January 2015 from the sale of our remaining investment in HRTV in our Other Investments segment, which has been excluded from Segment Adjusted EBITDA and is included in other charges and recoveries in the reconciliation of Segment Adjusted EBITDA to Comprehensive Loss.

Calder Racing

On July 1, 2014, we finalized an agreement with The Stronach Group (“TSG”) under which TSG operates, at TSG’s expense, live racing and maintains certain facilities used for racing and training at Calder. The agreement, which expires on December 31, 2020, involves a lease to TSG of Calder’s racetrack and certain other racing and training facilities. TSG operates live horse racing at Calder, under Calder’s racing permits, in compliance with all applicable laws and licensing requirements and maintains the racing and training facilities at Calder on a year-round basis. Furthermore, TSG is responsible for substantially all of the direct and indirect costs associated with these activities and receives the associated revenues. We continue to own and operate the Calder Casino.

As a result of the agreement with TSG, we recognized accelerated depreciation expense of approximately $2.4 million during the year ended December 31, 2014 primarily related to Calder's barns, which were not expected to be utilized subsequent to December 31, 2014. During the three months ended March 31, 2015, we continued our assessment of potential alternative uses of the Calder facility not associated with the lease agreement, and as a result, we commenced the demolition of our barns not required under the TSG agreement. We expect to fund and capitalize approximately $0.8 million in expenditures during 2015 for construction costs to remove the barns and prepare the stable areas for alternate future uses.

Legislative and Regulatory Changes

Kentucky

Expanded Gaming Legislation

On February 13, 2015, Senate Bill 199, a proposed constitutional amendment to allow the Kentucky legislature to authorize gaming expansion in the state by general law, was filed for consideration. On February 5, 2015, House Bill 300, a constitutional amendment authorizing casino gaming in Kentucky, was introduced. The amendment would have allowed for six casinos in the state to be approved by local referendum and limited to counties with populations of at least 85,000, and authorized the Kentucky Lottery Corporation to regulate and to operate casino facilities. The 2015 session ended without consideration of any legislation related to gaming expansion in Kentucky. Should similar future legislation be enacted into law, it could have a material impact on our business, financial condition and results of operations.

Sweepstakes Cafes

On March 23, 2015 the Governor of Kentucky signed Senate Bill 28 effectively prohibiting Internet cafes from operating in the state. The bill became effective immediately upon becoming law.

Illinois

Expanded Gaming Legislation

On March 27, 2015, House Bill 2939 and House Bill 3564 were filed in the Illinois legislature. House Bill 2939 would authorize a state owned Chicago casino with 4,000 to 12,000 gaming positions. House Bill 3564 proposes to authorize five new casinos, a Chicago casino and electronic gaming at all Illinois racetracks except Fairmount Park Racetrack. Cook County racetracks would be authorized to operate 600 positions, while certain other racetracks would be authorized for 450 positions. If enacted, the legislation could have a material effect on our business, financial condition and results of operations.

Ohio

Video Lottery Sales

In April 2015, State Bill 140 was introduced which would remove the ability of a video lottery sales agent, such as our joint venture investment in MVG, to offer promotional play unless specific criteria are met. Under the terms of the bill, in order for a video lottery sales agent to offer promotional play, the agent must have at least 90% of the statutorily allocated video lottery terminals on the gaming floor and the agent must generate at least $165 million in revenue. If the agent meets the both criteria, not only will they qualify to offer up to $5 million of promotional play, the agent may offer expanded types of video lottery games. If enacted, we expect the legislation to have a material impact on our business, financial condition and results of operation.

Florida

Expanded Gaming

On March 2, 2015, House Bill 1233 was filed for consideration during the 2015 legislative session. House Bill 1233 would provide that all outstanding, dormant pari-mutuel wagering permits revert to the state, prohibit the portability of pari-mutuel permits, allow for the decoupling of dog tracks, allow existing slot machine facilities to be open continuously, place a moratorium on the issuance of new gaming permits, provide for slot machines at pari-mutuel operations in Palm Beach and Lee counties, if their authorization is exempted in the Compact, and permit Miami Dade and Broward counties to conduct a referendum related to destination resort locations. At this time it is difficult to determine if this or similar legislation would have a material impact on our business, financial condition and results of operation.

On April 3, 2015 proposed Senate Bill 7088 was filed for consideration. The bill would extend a provision of the Seminole Compact allowing the Tribe to exclusively offer banked card games, allow for the decoupling of all slot machine licensees in the state and grant slot machines to pari-mutuel operations in Palm Beach and Lee counties for an extension of one year, to end on July 31,2016. At this time it is difficult to determine if this or similar legislation would have a material impact on our business, financial condition and results of operation.

Maine

Expanded Gaming

In April 2015, legislation was filed for consideration that would expand gaming locations in the state and allow for entities such as Native American tribes and a harness track located in Southern Maine to operate casino facilities. Should gaming expansion occur in Maine it could negatively impact our business, financial condition and results of operations.

New York

Gaming Legislation

During 2012, the Governor of New York and legislative leaders agreed to legalize casino gaming and seek an amendment to the state constitution that would authorize such gaming and, during 2013, New York voters approved a constitutional amendment authorizing up to seven casinos in the state. On May 13, 2014, we entered into a 50% joint venture with SHRI to bid on the development, construction and operation of the Capital View Casino & Resort located in the Capital Region near Albany, New York. On December 17, 2014, the Gaming Facility Location Board (the "Location Board") announced the award of three casino licenses in the state and awarded the Capital Region license to another bidder, but it did not award a fourth available license in the Southern Region. In December 2014, the Governor of New York appealed to the Location Board to reconsider awarding the fourth license in the state. During January 2015, the Location Board reopened the bidding process for casino license applications for the fourth license. At this time it is unknown if, or when, the fourth casino license will be awarded. An expansion of gaming in New York includes incentives for the horse racing industry. At this time it is difficult to determine the impact casino gaming could have on our business, financial condition and results of operations.

The New York state budget was approved in April 2015 and included a provision authorizing the expansion of video lottery terminal games at six racetracks, including Saratoga Casino and Raceway. Specifically, the measure will allow racetracks to add electronic blackjack and poker games under the classification of games of chance and not skill. We expect approval of the legislation to result in a favorable impact to our business, financial condition and results of operation.

California

Internet Poker

In February 2015, Senate Bill 278 and Assembly Bill 431 were introduced. The identical bills would authorize Internet poker in the state and direct the Gambling Control Commission, in consultation with the Department of Justice, to establish regulations governing the operation of Internet poker in California. The potential effect of Senate Bill 278 or Assembly Bill 431 on our business, financial condition and results of operations cannot be determined at this time.

Louisiana

Smoking Ban

On January 22, 2015, the New Orleans City Council approved a smoking ban in bars and other public places, including casinos, in Orleans Parrish which took effect on April 22, 2015. The smoking ban is expected to have a negative impact on our business, financial condition and results of operations.

On March 24, 2015 legislation was filed that will direct all revenue from unclaimed pari-mutuel wagering tickets and electronic gaming jackpots to a crime victims reparations fund to help pay for medical related expenses of sexual assault victims. Should this legislation pass, it could have a negative impact on our business, financial condition and results of operations.

Pennsylvania

Internet Poker

During 2015, House Bill 649 and House Bill 695 authorizing Internet poker in Pennsylvania were introduced for consideration during the 2015 legislative session and would authorize existing Pennsylvania casinos to offer Internet poker, require a license fee of $5 million, establish a 14% tax on gross gaming revenues and permit the state to enter into interactive gaming agreements with other jurisdictions. The potential impact of this legislation on our business, financial condition and results of operation cannot be determined at this time.

On April 7, 2015, House Bill 920, was introduced and would allow existing casinos to offer Internet gaming on casino style games, establish a $5 million licensing fee, institute a 28% tax rate on gross gaming revenue and allow the state to enter into interstate compacts or reciprocal agreements with other jurisdictions. The potential impact of the legislation on our business, financial condition and results of operation cannot be determined at this time.

RESULTS OF CONTINUING OPERATIONS

Big Fish Games Activity

The following table sets forth, for the periods indicated, statistical Big Fish Games information (in thousands):

	Three Months Ended March 31,		Change	
	2015	2014 (1)	$	%
Bookings				
Casino	$49,293	$—	$49,293	F
Casual F2P				