

INTERNATIONAL SPEEDWAY CORP

Form 10-Q

October 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange  
Act of 1934

For the quarterly period ended August 31, 2007

OR

o

Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

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

**INTERNATIONAL SPEEDWAY CORPORATION**

(Exact name of registrant as specified in its charter)

**FLORIDA**

(State or other jurisdiction  
of incorporation)

**O-2384**

(Commission  
File Number)

**59-0709342**

(I.R.S. Employer  
Identification No.)

**1801 WEST INTERNATIONAL SPEEDWAY BOULEVARD, DAYTONA BEACH, FLORIDA**

(Address of principal executive offices)

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32114

(Zip code)

Registrant's telephone number, including area code: **(386) 254-2700**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the end of the period covered by the report.

Class A Common Stock

30,782,959 shares

as of August 31, 2007.

Class B Common Stock

21,646,210 shares

as of August 31, 2007

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

INTERNATIONAL SPEEDWAY CORPORATION

Consolidated Balance Sheets

November 30, 2006

August 31, 2007

(Unaudited)

(In Thousands)

ASSETS

Current Assets:

Cash and cash equivalents

\$  
59,681

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\$  
57,009

Short-term investments

78,000

39,250

Receivables, less allowance of \$1,000 in 2006 and 2007

52,699

57,886

Inventories

3,976

6,195

Deferred income taxes

995

1,311

Prepaid expenses and other current assets

8,251

35,466

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Total Current Assets

203,602

197,117

Property and Equipment, net of accumulated depreciation of \$371,219 and \$412,194, respectively

1,157,313

1,281,383

Other Assets:

Equity investments

175,915

112,201

Intangible assets, net

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149,314

179,019

Goodwill

99,507

118,605

Deposits with Internal Revenue Service

110,813

117,936

Other

25,595

27,644

561,144

555,405



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Total Assets

\$  
1,922,059

\$  
2,033,905

LIABILITIES AND SHAREHOLDERS EQUITY

Current Liabilities:

Current portion of long-term debt

\$  
770

\$  
2,565

Accounts payable

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29,577

21,257

Deferred income

124,254

192,319

Income taxes payable

22,477

19,723

Other current liabilities

19,226

28,068

Total Current Liabilities

196,304

263,932

Long-Term Debt

367,324

375,654

Deferred Income Taxes

191,642

206,705

Long-Term Deferred Income

10,808

16,070

Other Long-Term Liabilities

866

5,744

Commitments and Contingencies

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Shareholders Equity:

Class A Common Stock, \$.01 par value, 80,000,000 shares authorized;  
31,078,307 and 30,603,208 issued and outstanding in 2006 and 2007, respectively

311

306

Class B Common Stock, \$.01 par value, 40,000,000 shares authorized;  
22,100,263 and 21,646,210 issued and outstanding in 2006 and 2007, respectively

221

216

Additional paid-in capital

698,396

650,709

Retained earnings

456,187

514,569

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Total Shareholders Equity

1,155,115

1,165,800

Total Liabilities and Shareholders Equity

\$  
1,922,059

\$  
2,033,905

**See accompanying notes.**

2

**INTERNATIONAL SPEEDWAY CORPORATION**

**Consolidated Statements of Operations**

Three Months Ended

August 31, 2006

August 31, 2007

(Unaudited)

(In Thousands, Except Per Share Amounts)

REVENUES:

Admissions, net

\$  
56,918

\$  
62,970

Motorsports related

100,541

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113,689

Food, beverage and merchandise

19,410

17,663

Other

2,023

1,978

178,892

196,300

EXPENSES:

Direct:

Prize and point fund monies and NASCAR sanction fees

30,320

35,067

Motorsports related

41,620

47,099

Food, beverage and merchandise

12,430

10,605

General and administrative

28,391

31,383

Depreciation and amortization

14,323



23,825

Impairment of long-lived assets

108

127,084

148,087

Operating income

51,808

48,213

Interest income

1,363

1,402

Interest expense

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(2,713  
)

(4,041  
)

Equity in net income (loss) from equity investments

5,451

(17,145  
)

Income from continuing operations before income taxes

55,909

28,429

Income taxes

21,610

18,882

Income from continuing operations

34,299

9,547

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Loss from discontinued operations, net of income  
tax benefits of \$60 and \$40

(27  
)

(30  
)

Net income

\$  
34,272

\$  
9,517

Basic earnings per share:

Income from continuing operations

\$  
0.64

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\$  
0.18

Loss from discontinued operations

Net income

\$  
0.64

\$  
0.18

Diluted earnings per share:

Income from continuing operations

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\$  
0.64

\$  
0.18

Loss from discontinued operations

Net income

\$  
0.64

\$  
0.18

Dividends per share

\$

\$

Basic weighted average shares outstanding

53,177,570

52,473,146

Diluted weighted average shares outstanding

53,272,124

52,583,820

**See accompanying notes.**

3

**INTERNATIONAL SPEEDWAY CORPORATION**

**Consolidated Statements of Operations**

Nine Months Ended

August 31, 2006

August 31, 2007

(Unaudited)

(In Thousands, Except Per Share Amounts)

REVENUES:

Admissions, net

\$  
161,718

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\$  
175,518

Motorsports related

316,788

324,095

Food, beverage and merchandise

59,435

57,028

Other

6,969

6,380

544,910

563,021



EXPENSES:

Direct:

Prize and point fund monies and NASCAR sanction fees

99,422

101,341

Motorsports related

104,886

116,886

Food, beverage and merchandise

37,000

33,506

General and administrative

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79,589

90,127

Depreciation and amortization

41,565

62,973

Impairment of long-lived assets

9,184

362,462

414,017

Operating income

182,448

149,004

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Interest income

3,384

3,699

Interest expense

(9,613  
)

(11,781  
)

Equity in net income (loss) from equity investments

768

(21,756  
)

Income from continuing operations before income taxes

176,987

119,166

Income taxes

67,829

55,384

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Income from continuing operations

109,158

63,782

Loss from discontinued operations, net of income tax benefits of \$208 and \$126

(146  
)

(56  
)

Net income

\$  
109,012

\$  
63,726

Basic earnings per share:

Income from continuing operations

\$  
2.05

\$  
1.21

Loss from discontinued operations

Net income

\$  
2.05

\$  
1.21

Diluted earnings per share:

Income from continuing operations

\$  
2.05

\$  
1.20

Loss from discontinued operations

Net income

\$  
2.05

\$  
1.20

Dividends per share

\$  
0.08

\$

0.10

Basic weighted average shares outstanding

53,162,611

52,791,267

Diluted weighted average shares outstanding

53,262,895

52,905,851

**See accompanying notes.**

**INTERNATIONAL SPEEDWAY CORPORATION**

**Consolidated Statement of Shareholders Equity**

Class A Common

Class B Common

Total

Stock \$.01

Stock \$.01

Additional

Retained



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Shareholders

Par Value

Par Value

Paid-in Capital

Earnings

Equity

(Unaudited)

(In Thousands)

Balance at November 30, 2006

\$  
311

\$  
221

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\$  
698,396

\$  
456,187

\$  
1,155,115

Activity 12/1/06 8/31/07:

Comprehensive income:

Net income

63,726

63,726

Cash dividend declared (\$.10 per share)

(5,292  
)

(5,292  
)

Exercise of stock options

357

357

Reacquisition of previously issued  
common stock

(10  
)

(51,455  
)

(52  
)

(51,517  
)

Conversion of Class B Common Stock  
to Class A Common Stock

5

(5  
)

Income tax benefit related to stock-based  
compensation

178

178

Stock-based compensation

3,233

3,233

Balance at August 31, 2007

\$  
306

\$  
216

\$  
650,709

\$  
514,569

\$  
1,165,800

See accompanying notes.

5

**INTERNATIONAL SPEEDWAY CORPORATION**

**Consolidated Statements of Cash Flows**

Nine Months Ended

August 31, 2006

August 31, 2007

(Unaudited)

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(In Thousands)

OPERATING ACTIVITIES

Net income

\$  
109,012

\$  
63,726

Adjustments to reconcile net income to net cash provided by  
operating activities:

Depreciation and amortization

41,565

62,973

Stock-based compensation

2,019

3,233

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Amortization of financing costs

410

388

Deferred income taxes

13,462

16,004

(Income) loss from equity investments

(768  
)

21,756

Impairment of long-lived assets, non-cash

6,143

Excess tax benefits relating to stock-based compensation

(185  
)

(169  
)

Other, net

(105  
)



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1,314

Changes in operating assets and liabilities:

Receivables, net

(9,844  
)

(3,315  
)

Inventories, prepaid expenses and other assets

(23,866  
)

(28,737  
)

Deposits with Internal Revenue Service

(7,123  
)

Accounts payable and other liabilities

6,957

9,465

Deferred income

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55,996

58,515

Income taxes

(325  
)

(2,576  
)

Net cash provided by operating activities

194,328

201,597

INVESTING ACTIVITIES

Capital expenditures

(81,282  
)

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(70,439  
)

Proceeds from asset disposals

161

Purchase of equity investments

(124,565  
)

Acquisition of business, net of cash acquired

(87,111  
)

Proceeds from affiliate

128

67

Proceeds from short-term investments

52,050

105,120

Purchases of short-term investments

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(124,150  
)

(66,370  
)

Other, net

(374  
)

58

Net cash used in investing activities

(278,032  
)

(118,675  
)

FINANCING ACTIVITIES

Proceeds under credit facility

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80,000

65,000

Payments under credit facility

(80,000  
)

(65,000  
)

Payment of long-term debt

(29,311  
)

Exercise of Class A common stock options

145

357

Cash dividends paid

(4,270  
)

(5,292  
)

Excess tax benefits relating to stock-based compensation

185

169

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Reacquisition of previously issued common stock

(460  
)

(51,517  
)

Deferred financing costs

(368  
)

Net cash used in financing activities

(4,768  
)

(85,594  
)

Net decrease in cash and cash equivalents

(88,472  
)

(2,672  
)

Cash and cash equivalents at beginning of period

130,758

59,681

Cash and cash equivalents at end of period

\$  
42,286

\$  
57,009

**See accompanying notes.**

6

**International Speedway Corporation**

**Notes to Consolidated Financial Statements**

**August 31, 2007**

**(Unaudited)**

**1. Basis of Presentation**

The accompanying consolidated financial statements have been prepared in compliance with Rule 10- of Regulation S-X and accounting principles generally accepted in the United States but do not include all of the information and disclosures required for complete financial statements. The balance sheet at November 30, 2006, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The statements should read in conjunction with the consolidated financial statements and notes thereto included in the latest annual report on Form 10-K for International Speedway Corporation and its wholly owned

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subsidiaries (the Company ). In management s opinion, the statements include all adjustments which are necessary for a fair presentation of the results for the interim periods. All such adjustments are of a normal recurring nature.

Unless indicated otherwise, all disclosures in the notes to the consolidated financial statements relate to continuing operations.

Because of the seasonal concentration of racing events, the results of operations for the three and nine months ended August 31, 2006 and 2007 are not indicative of the results to be expected for the year.

### 2. New Accounting Pronouncements

In June 2006 the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes , which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the potential impact that the adoption of this interpretation will have on its financial position and results of operations.

In June 2006 the Emerging Issues Task Force ( EITF ) reached a consensus on Issue No. 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement. EITF No. 06-03 addresses the accounting for externally imposed taxes on revenue-producing transactions that take place between a seller and its customer, including, but not limited to sales, use, value added, and certain excise taxes. EITF No. 06-03 also provides guidance on the disclosure of an entity s accounting policies for presenting such taxes on a gross or net basis and the amount of such taxes reported on a gross basis. EITF No. 06-03 is effective for interim and fiscal years beginning after December 15, 2006. The Company s adoption of this EITF in the second quarter of fiscal 2007 did not have an impact on the Company s financial statements.

In September 2006 the FASB issued SFAS No. 157, Fair Value Measurements which establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS No 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS No 157 does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the potential impact that the adoption of this statement will have on its financial position and results of operations.

In February 2007 the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115 which, among other things, permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 was issued to improve financial reporting by providing entities with the opportunity to



mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact that the adoption of this statement will have on its financial position and results of operations.

### 3. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended August 31 (in thousands, except share amounts):

Three Months Ended

Nine Months Ended

August 31,

August 31,

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August 31,

August 31,

2006

2007

2006

2007

Basic and diluted:

Income from continuing operations

\$  
34,299

\$  
9,547

\$

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109,158

\$  
63,782

Loss from discontinued operations

(27  
)

(30  
)

(146  
)

(56  
)

Net income

\$  
34,272

\$  
9,517

\$  
109,012

\$  
63,726

Basic earnings per share denominator:

Weighted average shares outstanding

53,177,570

52,473,146

53,162,611

52,791,267

Basic earnings per share:

Income from continuing operations

\$  
0.64

\$  
0.18

\$  
2.05

\$  
1.21

Loss from discontinued operations

Net income

\$  
0.64

\$  
0.18

\$  
2.05

\$  
1.21

Diluted earnings per share denominator:

Weighted average shares outstanding

53,177,570

52,473,146

53,162,611

52,791,267

Common stock options

12,358

17,956

14,043

18,184

Contingently issuable shares

82,196

92,718

86,241

96,400



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Diluted weighted average shares  
outstanding

53,272,124

52,583,820

53,262,895

52,905,851

Diluted earnings per share:

Income from continuing operations

\$  
0.64

\$  
0.18

\$  
2.05

\$  
1.20

Loss from discontinued operations

Net income

\$  
0.64

\$  
0.18

\$  
2.05

\$  
1.20

Anti-dilutive shares excluded in the  
computation of diluted earnings per share

69,539

65,540

45,919

45,467

#### **4. Acquisition of Businesses**

##### *Raceway Associates, LLC*

On February 2, 2007, the Company acquired the 62.5 percent ownership interest in Raceway Associates, LLC ( Raceway Associates ) it did not previously own, bringing its ownership to 100.0 percent. Raceway Associates operates Chicagoland Speedway ( Chicagoland ) and Route 66 Raceway ( Route 66 ). The purchase price for the 62.5 percent ownership interest totaled approximately \$111.1 million, including approximately \$102.4 million paid to the prior owners, the assumption of third party liabilities and acquisition costs, net of cash received. The purchase price was paid with cash on hand and approximately \$65.0 million in borrowings on the Company s revolving credit facility. This transaction has been accounted for as a business combination and is included in our consolidated operations subsequent to the date of acquisition.

8

The purchase price for the Raceway Associates acquisition was preliminarily allocated to the assets acquired and liabilities assumed based on their fair market values at the acquisition date as determined primarily by an independent appraisal. Included in this acquisition are certain indefinite-lived intangible assets attributable to the sanction agreements in place at the time of acquisition and goodwill. The intangible assets and goodwill are included in the Motorsports Even segment and are expected to be deductible for income tax purposes. As the acquisition is not considered significant, pro forma and purchase price allocation financial information are not presented.

#### **5. Discontinued Operations and Impairment of Long-Lived Assets**

##### *Nazareth Speedway*

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After the completion of Nazareth Speedway's ( Nazareth ) fiscal 2004 events, the Company suspended indefinitely major motorsports event operations at the facility. The National Association for Stock Car Auto Racing ( NASCAR ) Busch Series and Indy Racing League ( IRL ) IndyCar Series events, the conducted at Nazareth, were realigned to other motorsports entertainment facilities within the Company's portfolio.

In January 2006, the Company entered into an agreement with NZSW, LLC for the sale of 158 acres, which Nazareth Speedway is located, for approximately \$18.8 million. Under the terms of the contract the sale transaction is expected to close during fiscal 2007. Upon closing the transaction, the Company expects to record an after-tax gain from discontinued operations of approximately \$6.0 million to \$7.0 million, or \$0.11 to \$0.13 per diluted share.

The operations of Nazareth were included in the Motorsports Event segment. In accordance with SFA No. 144 the results of operations of Nazareth are presented as discontinued operations in all periods presented. There were no revenues recognized by Nazareth for the three and nine months ended August 31, 2006 and 2007. Nazareth's pre-tax loss was approximately \$329,000 and \$70,000 for the three months ended August 31, 2006 and 2007, respectively, and \$596,000 and \$182,000 for the nine months ended August 31, 2006 and 2007, respectively. Nazareth's assets held for sale included in property and equipment, net of accumulated depreciation, totaled approximately \$6.8 million at November 30, 2006 and August 31, 2007. Unless indicated otherwise, all disclosures in the notes to the consolidated financial statements relate to continuing operations.

### *Northwest US Speedway Development*

Since 2005, the Company had been pursuing development of a motorsports entertainment facility in Kitsap County, Washington, which required State Legislation to help finance the project. In early 2007 this legislation was introduced in both the Washington State House of Representatives and Senate. On April 2, 2007, the Company announced that despite agreeing to substantial changes to the required legislation it had become apparent that additional modifications would be proposed to the bill. Due to the increased risk that the collective modifications would have a significant negative impact on the project's financial model, the Company felt it was in its best long-term interest to discontinue its efforts at the site. As a result, the Company recorded a non-cash pre-tax charge in the fiscal 2007 second quarter of approximately \$5.9 million, or \$0.07 per diluted share after-tax, to reflect the write-off of certain capitalized costs including legal, consulting, capitalized interest and other project-specific costs. The charge is included in Impairment of Long-lived Assets in the consolidated statements of operations for the nine months ended August 31, 2007.

### *New York Metropolitan Speedway Development*

In September 2006 the Company ceased fill operations at its Staten Island real property while it addressed the issues raised in communications from the New York State Department of Environmental Conservation ( DEC ) and the New York City Department of Sanitation ( DOS ), including the presence of, and potential need to remediate, fill containing constituents above regulatory thresholds. In May 2007, the Company entered into a Consent Order with the DEC to resolve the issues surrounding these fill operations and the prior placement of fill at the site that contained constituents above regulatory thresholds. The Consent Order requires the Company to remove non-compliant fill pursuant to an approved comprehensive fill removal plan. The Company commenced fill removal activities in September 2007, and it expects the fill removal to be complete in three to four months. The Consent Order also required the Company to pay a penalty to DEC of \$562,500, half of which was paid in May 2007 and the other half of which has been

suspended so long as the Company complies with the terms of the Consent Order. Included in Impairment of Long-lived Assets in the consolidated statements of operations for the three and nine months ended August 31, 2007, is the Company's estimated total costs, including the portion of the penalty which has been paid, attributable to the expected fill removal process of approximately \$108,000 and \$3.0 million, respectively, or \$0.00 and \$0.04 per diluted share after-tax, respectively. The costs associated with the fill removal process will be paid within the next several months, as the fill is removed. The Company continues to evaluate the existence of other responsible parties and potential recoveries from such parties, if any. The Company expects to resume fill operations within the next several months after complying with the Consent Order and once other appropriate regulatory approvals are obtained.

#### 6. Equity Investments

The Company's growth strategy includes investing in certain joint venture opportunities. In the

At the present time the Company continues to believe in the strategic rationale for its equity investment and that Motor

#### 7. Goodwill and Intangible Assets

The gross carrying value, accumulated amortization and net carrying value of the major classes of intangible assets relating to the Motorsports Event segment are as follows (in thousands):

November 30, 2006

Gross Carrying

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Accumulated

Net Carrying

Amount

Amortization

Amount

Amortized intangible assets:

Customer database

\$  
500

\$  
200

\$  
300

Food, beverage and merchandise contracts

276

185

91

Total amortized intangible assets

776

385

391

Non-amortized intangible assets:



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NASCAR sanction agreements

148,000

148,000

Other

923

923

Total non-amortized intangible assets

148,923

148,923

Total intangible assets

\$  
149,699

\$  
385

\$  
149,314

August 31, 2007

Gross Carrying

Accumulated

Net Carrying

Amount

Amortization

Amount

Amortized intangible assets:

Customer database

\$  
500

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\$  
275

\$  
225

Food, beverage and merchandise contracts

251

193

58

Total amortized intangible assets

751

468

283

Non-amortized intangible assets:

NASCAR sanction agreements

177,813

177,813

Other

923

923

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Total non-amortized intangible assets

178,736

178,736

Total intangible assets

\$  
179,487

\$  
468

\$  
179,019

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The following table presents current and expected amortization expense of the existing intangible assets as of August 31, 2007 for each of the following periods (in thousands):

Amortization expense for the nine months ended  
August 31, 2007

\$  
108

Estimated amortization expense for the year ending  
November 30:

2007

\$  
143

2008

143

2009

101

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2010

1

2011

1

The changes in the carrying value of goodwill are as follows (in thousands):

Balance at November 30, 2006

\$  
99,507

Goodwill acquired

19,098

Balance at August 31, 2007

\$  
118,605



Goodwill acquired consists of the February 2, 2007, acquisition of Raceway Associates and is included in our Motorsports Event segment.

**8. Long-Term Debt**

Long-term debt consists of the following (in thousands):

November 30,

August 31,

2006

2007

4.2% Senior Notes

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\$  
150,915

\$  
150,628

5.4% Senior Notes

149,917

149,925

4.9% Bank Loan

3,114

6.3% Bank Loan

128

5.8% Revenue Bond

2,359

6.8% Revenue Bond

4,745

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TIF bond debt service funding commitment

67,262

67,320

368,094

378,219

Less: current portion

770

2,565

\$  
367,324

\$  
375,654

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On April 23, 2004, the Company completed an offering of \$300.0 million principal amount of unsecured senior notes in a private placement. On September 27, 2004, the Company completed an offer to exchange these unsecured senior notes for registered senior notes with substantially identical terms ( 2004 Senior Notes ). At August 31, 2007, outstanding 2004 Senior Notes totaled approximately \$300.6 million, net of unamortized discounts and premium, which is comprised of \$150.0 million principal amount unsecured senior notes, which bear interest at 4.2 percent and are due April 2009 ( 4.2 percent Senior Notes ), and \$150.0 million principal amount unsecured senior notes, which bear interest at 5.4 percent and are due April 2014. The 2004 Senior Notes require semi-annual interest payments on April 15 and October 15 through their maturity. The 2004 Senior Notes may be redeemed in whole or in part, at the option of the Company, at any time or from time to time at redemption prices as defined in the indenture. The Company's wholly-owned domestic subsidiaries are guarantors of the 2004 Senior Notes. The 2004 Senior Notes also contain various restrictive covenants. Total gross proceeds from the sale of the 2004 Senior Notes were \$300.0 million, net of discounts of approximately \$431,000 and approximately \$2.6 million of deferred financing fees. The deferred financing fees are being treated as additional interest expense and amortized over the life of the 2004 Senior Notes on a straight-line method, which approximates the effective yield method. In March 2004, the Company entered into interest rate swap agreements to

11

effectively lock in the interest rate on approximately \$150.0 million of the 4.2 percent Senior Notes. The Company terminated these interest rate swap agreements on April 23, 2004 and received approximately \$2.2 million, which is being amortized over the life of the 4.2 percent Senior Note

In connection with the Company's February 2, 2007, acquisition of the 62.5 percent ownership interest in Raceway Associates it did not previously own, it assumed approximately \$39.7 million third party debt, consisting of three bank term loans and two revenue bonds payable. The first bank term loan ( Chicagoland Term Loan ) was a construction loan for the development of Chicagoland with principal outstanding at the date of acquisition of approximately \$28.4 million. The Company paid the remaining principal and accrued interest on the Chicagoland Term Loan subsequent to the acquisition in February 2007. The second bank term loan ( 4.9 percent Bank Loan ) consists of a construction and mortgage note with principal outstanding at the date of acquisition of approximately \$3.3 million, original 20 year term due June 2018, with a current interest rate of 4.9 percent and a monthly payment of \$48,000 principal and interest. The interest rate and monthly payments will be adjusted on June 1, 2008, and 2013. At August 31, 2007, outstanding principal on the 4.9 percent Bank Loan was approximately \$3.1 million. The third bank term loan ( 6.3 percent Bank Loan ) consists of a mortgage note with principal outstanding at the date of acquisition of approximately \$271,000, original five year term due February 2008, with a fixed interest rate of 6.3 percent and a monthly payment of \$25,000 principal and interest. At August 31, 2007, outstanding principal on the 6.3 percent Bank Loan was approximately \$128,000. The first revenue bonds payable ( 5.8 percent Revenue Bonds ) consist of economic development revenue bonds issued by the City of Joliet, Illinois to finance certain land improvements with principal outstanding at the date of acquisition of approximately \$2.5 million. The 5.8 percent Revenue Bonds have an initial interest rate of 5.8 percent and a monthly payment of \$29,000 principal and interest. The interest rate will be adjusted on June 1, 2008 and will continue until maturity in June 2018. At August 31, 2007, outstanding principal on the 5.8 percent Revenue Bonds was approximately \$2.4 million. The second revenue bonds payable ( 6.8 percent Revenue Bonds ) are special service area revenue bonds issued by the City of Joliet, Illinois to finance certain land improvements with principal outstanding at the date of acquisition of approximately \$5.2 million. The 6.8 percent Revenue Bonds are billed and paid as a special assessment on real estate taxes. Interest payments are due on a semi-annual basis at 6.8 percent with principal payments due annually. Final maturity of the 6.8 percent Revenue Bonds is January 2012. At August 31, 2007, outstanding principal on the 6.8 percent

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Revenue Bonds was approximately \$4.7 million.

In January 1999, the Unified Government of Wyandotte County/Kansas City, Kansas ( Unified Government ), issued approximately \$71.3 million in taxable special obligation revenue ( TIF ) bonds in connection with the financing of construction of Kansas Speedway. At August 31, 2007, outstanding TIF bonds totaled approximately \$67.3 million, net of the unamortized discount, which is comprised of a \$18.7 million principal amount, 6.2 percent term bond due December 1, 2017 and \$49.7 million principal amount, 6.8 percent term bond due December 1, 2027. The TIF bonds are repaid by the Unified Government with payments made in lieu of property taxes ( Funding Commitment ) by the Company s wholly-owned subsidiary, Kansas Speedway Corporation ( KSC ). Principal (mandatory redemption) payments per the Funding Commitment are payable by KSC on October 1 of each year. The semi-annual interest component of the Funding Commitment is payable on April and October 1 of each year. KSC granted a mortgage and security interest in the Kansas project for its Funding Commitment obligation. The bond financing documents contain various restrictive covenants.

On June 16, 2006, the Company entered into a \$300.0 million revolving credit facility ( 2006 Credit Facility ). The 2006 Credit Facility allows the Company to increase the credit facility to a total of \$500.0 million, subject to certain conditions. The 2006 Credit Facility is scheduled to mature in June 2011, and accrues interest at LIBOR plus 30.0-80.0 basis points, based on the Company s highest debt rating as determined by specified rating agencies. At August 31, 2007, the Company did not have any borrowings outstanding under the 2007 Credit Facility. The 2006 Credit Facility contains various restrictive covenants.

Total interest expense from continuing operations incurred by the Company was approximately \$2.7 million and \$4.0 million for the three months ended August 31, 2006 and 2007, respectively, and \$9.6 million and \$11.8 million for the nine months ended August 31, 2006 and 2007, respectively. Total interest capitalized for the three months ended August 31, 2006 and 2007, was approximately \$2.3 million and \$1.1 million, respectively, and approximately \$6.2 million and \$3.8 million for the nine months ended August 31, 2006 and 2007, respectively.

12

Financing costs of approximately \$6.5 million and \$5.9 million, net of accumulated amortization, have been deferred and are included in other assets at November 30, 2006 and August 31, 2007, respectively. These costs are being amortized on a straight line method, which approximates the effective yield method, over the life of the related financing.

### **9. Capital Stock**

#### *Stock Purchase Plan*

In December 2006 the Company announced that its Board of Directors had authorized a share repurchase program ( Stock Purchase Plan ) under which it may purchase up to \$50.0 million of its outstanding Class A common shares. In July 2007, the Company s Board of Directors authorized a \$100.0 million increase to the Stock Purchase Plan allowing the Company to purchase up to a total of \$150.0 million of its outstanding Class A common shares through November 30, 2008. The timing

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and amount of any shares repurchased under the Stock Purchase Plan will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability and other market conditions. The Stock Purchase Plan may be suspended or discontinued at any time without prior notice. No shares have been or will be knowingly purchased from Company insiders or their affiliates. During the nine months ended August 31, 2007 the Company purchased 996,143 shares of its Class A common shares, at an average cost of approximately \$51.20 per share (including commissions), for a total of approximately \$51.0 million under the Stock Purchase Plan.

### 10. Income Taxes

The tax treatment of providing a valuation allowance related to the losses incurred in the Company

Also, in July 2007, the state of Michigan enacted Senate Bill 94, known as the Michigan Business Tax Act, which replaced

As a result of the above items the Company's effective income tax rate increased from the statutory

### 11. Long-Term Stock Incentive Plan

In April 2007, the Company awarded and issued a total of 53,865 restricted shares of the Company Class A common shares to certain officers and managers under the Company's Long-Term Stock Incentive Plan (the 2006 Plan). The shares of restricted stock awarded in April 2007, vest at a rate of 50.0 percent on the third anniversary of the award date and the remaining 50.0 percent on the fifth anniversary of the award date. The weighted average grant date fair value of these restricted share awards was \$51.70 per share. In accordance with SFAS 123(R) Share-Based Payment, the Company is recognizing stock-based compensation on its restricted shares awarded on the accelerated method over the requisite service period.

In July 2007, the Company granted a total of 18,340 options to the non-employee directors and 45,000 options to certain non-officer managers to purchase the Company's Class A Common Stock. The exercise price for both groups of options is \$52.71 per share. The non-employee director's options become exercisable one year after the date of grant and expire on the tenth anniversary of the date of grant. The non-officer manager's options vest over a two and one-half year period and expire on the tenth anniversary of the date of grant. In accordance with SFAS 123(R) the Company is recognizing stock-based compensation on its stock options granted on the straight-line method over the requisite service period. The fair value of each option granted is estimated on the grant date using the Black-Scholes-Merton option-pricing valuation model that uses the assumptions in the following table.

Expected volatility

22.5%-28.7  
%

Weighted average volatility

24.3  
%

Expected dividends

0.2  
%

Expected term (in years)

4.9-7.1

Risk-free rate

4.9  
%

## 12. Related Party Disclosures and Transactions

All of the racing events that take place during the Company's fiscal year are sanctioned by various racing organizations such as the American Historic Racing Motorcycle Association, the American Motorcyclist Association, the Automobile Racing Club of America, the American Sportbike Racing Association Championship Cup Series, Grand American Road Racing Association, Historic Sports Car Racing, the International Race of Champions, IRL, NASCAR, the National Hot Rod Association, the Porsche Club of America, the Sports Car Club of America, the Sports Car Vintage Racing Association, the United States Auto Club and the World Karting Association. NASCAR, which sanctions some of the Company's principal racing events, is controlled by members of the France Family Group which, in turn, controls in excess of 65.0 percent of the combined voting power of the outstanding stock of the Company. Additionally, some members of the France Family Group serve as directors and officers of the Company. Standard NASCAR sanction agreements require racetrack operators to pay sanction fees and prize and point fund monies for each sanctioned event conducted. The prize and point fund

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monies are distributed by NASCAR to participants in the events. Prize and point fund monies paid the Company to NASCAR from continuing operations for disbursement to competitors, which are exclusive of NASCAR sanction fees, totaled approximately \$25.9 million and \$29.7 million for the three months ended August 31, 2006 and 2007, respectively, and approximately \$86.8 million and \$87.1 million for the nine months ended August 31, 2006 and 2007, respectively. There were no prize and point fund monies paid by the Company to NASCAR related to the discontinued operations for the three and nine months ended August 31, 2006 and 2007, respectively.

Under current agreements, NASCAR contracts directly with certain network providers for television rights to the entire NASCAR NEXTEL Cup, Busch and Craftsman Truck series schedules. Event promoters share in the television rights fees in accordance with the provision of the sanction agreement for each NASCAR NEXTEL Cup, Busch and Craftsman Truck series event. Under the terms of this arrangement, NASCAR retains 10.0 percent of the gross broadcast rights fees allocated to each NASCAR NEXTEL Cup, Busch and Craftsman Truck series event as a component of its sanction fees and remits the remaining 90.0 percent to the event promoter. The event promoter pays 25.0 percent of the gross broadcast rights fees allocated to the event as part of the previously discussed prize money paid to NASCAR for disbursement to competitors. The Company's television broadcast and ancillary rights fees from continuing operations received from NASCAR for the NASCAR NEXTEL Cup, Busch and Truck series events conducted at its wholly-owned facilities were approximately \$51.1 million and \$56.9 million for the three months ended August 31, 2006 and 2007, respectively, and \$186.6 million and \$176.4 million for the nine months ended August 31, 2006 and 2007, respectively. There were no television broadcast and ancillary rights fees received from NASCAR related to discontinued operations during the three and nine months ended August 31, 2006 and 2007, respectively.

### 13. Commitments and Contingencies

In October 2002, the Unified Government issued subordinate sales tax special obligation revenue bonds ( 2002 STAR Bonds ) totaling approximately \$6.3 million to reimburse the Company for certain construction already completed on the second phase of the Kansas Speedway project and to fund certain additional construction. The 2002 STAR Bonds, which require annual debt service payments and are due December 1, 2022, will be retired with state and local taxes generated within the speedway's boundaries and are not the Company's obligation. KSC has agreed to guarantee the payment of principal, any required premium and interest on the 2002 STAR Bonds. At August 31, 2007, the Unified Government had approximately \$3.8 million outstanding on 2002 STAR Bonds. Under a keepwell agreement, the Company has agreed to provide financial assistance to KSC, if necessary, to support KSC's guarantee of the 2002 STAR Bonds.

14

The Company has guaranteed minimum royalty payments under certain agreements through December 2011 with a remaining maximum exposure at August 31, 2007, of approximately \$12.5 million.

In connection with the Company's automobile and workers' compensation insurance coverages and certain construction contracts, the Company has standby letter of credit agreements in favor of third parties totaling approximately \$3.1 million at August 31, 2007. At August 31, 2007, there were no amounts drawn on the standby letters of credit.



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The Internal Revenue Service (the Service ) is currently performing a periodic examination of the Company's federal income tax returns for the years ended November 30, 1999 through 2005 and has challenged the tax depreciation treatment of a significant portion of its motorsports entertainment facility assets. Through August 31, 2007, the Company has received reports from the Service requesting downward adjustments to its tax depreciation expense for the fiscal years ended November 30, 1999 through 2005, which could potentially result in the reclassification of approximately \$101.1 million of income taxes from deferred to current. Including related interest, the combined after-tax cash flow impact of these requested adjustments is approximately \$117.9 million. In order to prevent incurring additional interest related to fiscal 2005 and prior, the Company has approximately \$117.9 million on deposit with the Service as of August 31, 2007, which is classified as long-term assets in the Company's consolidated financial statements. The Company's deposits are not a payment of tax, and it will receive accrued interest on any of these funds ultimately returned to it. Including related interest, the Company estimates the combined after-tax cash flow impact of future additional federal tax adjustments expected for fiscal 2006, and related state tax revisions and interest for all periods, to range between \$30.0 million and \$40.0 million at August 31, 2007. In June 2007, the Service commenced the administrative appeals process which is expected to take six to fifteen months to complete. If the Company's appeal is not resolved satisfactorily, the Company will evaluate all of its options, including litigation. The Company believes that its application of the federal income tax regulations in question, which have been applied consistently since their enactment and have been subjected to previous IRS audits, is appropriate, and it intends to vigorously defend the merits of its position. In accordance with SFAS No. 109

Accounting for Income Taxes, the Company has accrued a deferred tax liability based on the differences between its financial reporting and tax bases of such assets in its consolidated balance sheet as of August 31, 2007. While an adverse resolution of these matters could result in a material negative impact on cash flow, including payment of taxes from amounts currently on deposit with the Service, the Company believes that it has provided adequate reserves related to these matters including interest charges through August 31, 2007 totaling approximately \$13.4 million, and, as a result, does not expect that such an outcome would have a material adverse effect on results of operations.

### Current Litigation

The Company is from time to time a party to routine litigation incidental to its business. Management does not believe that the resolution of any or all of such litigation will have a material adverse effect on the Company's financial condition or results of operations.

In addition to such routine litigation incidental to its business, the Company is a party to litigation described below.

In July 2005, Kentucky Speedway, LLC filed a civil action in the Eastern District of Kentucky against NASCAR and the Company alleging that NASCAR and ISC have acted, and continue to act, individually and in combination and collusion with each other and other companies that control motorsports entertainment facilities hosting NASCAR NEXTEL Cup Series, to illegally restrict the award of ... NASCAR NEXTEL Cup Series [races]. The complaint was recently amended to seek, in addition to damages, an injunction requiring NASCAR to develop objective factors for the award of NEXTEL Cup races, divestiture of ISC and NASCAR so that the France Family and anyone else does not share ownership of both companies or serve as officers or directors of both companies, ISC divestiture of at least 8 of its 12 racetracks that currently operate a NEXTEL Cup race and prohibiting further alleged violations of the antitrust laws. Curiously, the complaint does not ask the court to cause NASCAR to award a NEXTEL Cup race to the Kentucky Speedway. Other than some vaguely conclusory allegations, the complaint fails to specify any specific unlawful conduct by the Company. Pre-trial discovery in the case was recently concluded and based upon all of the evidentiary materials adduced the Company believes even more strongly than before that the case is without legal or factual merit. At this point the likelihood of a materially adverse result appears to be remote, although there is always an element of uncertainty in litigation. It is premature to attempt to quantify the potential magnitude of a remotely possible adverse

decision, although the Company intends to continue to defend itself vigorously while maintaining potential claims and remedies available to it to recover the damages caused by the filing of the suit. At a status conference in late May 2007 the Court modified the timeline for the case to extend the time periods for the conclusion of submission of summary judgment materials until September 24, 2007 and to tentatively set the date for a trial (if needed) of up to five weeks beginning in March 2008. The fees and expenses associated with the defense of this suit are not covered by insurance and could adversely impact the Company's financial condition or results of operations and cash flows, even if the Company ultimately prevails. Further, the time devoted to this matter by management and the possible impact of litigation on business negotiations occurring prior to resolution of this matter could also adversely impact the Company's financial condition or results of operations and cash flows. Finally, even if the direct effect of the resolution of this case does not result in a material adverse impact on the Company, it is remotely possible that the resolution of this case could result in industry wide changes in the way race schedules are determined by sanctioning bodies, which could indirectly have a material adverse impact on the Company.

#### **14. Segment Reporting**

The following tables provide segment reporting of the Company for the three and nine months ended August 31, 2006 and 2007 (in thousands):

Three Months Ended August 31, 2006

Motorsports

All

Event

Other

Total

Revenues

\$  
167,314

\$  
13,565

\$  
180,879

Depreciation and amortization

12,038

2,285

14,323

Operating income

48,981

2,827

51,808

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Capital expenditures

23,047

3,945

26,992

Total assets

1,698,713

280,271

1,978,984

Equity investments

176,365

176,365

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Three Months Ended August 31, 2007

Motorsports

All

Event

Other

Total

Revenues

\$  
183,336

\$  
13,934

\$  
197,270

Depreciation and amortization

15,732

8,093

23,825

Operating income

46,333

1,880

48,213

Capital expenditures

7,134

7,193

14,327

Total assets

1,756,542

277,363

2,033,905

Equity investments

112,201

112,201

Nine Months Ended August 31, 2006

Motorsports

All

Event

Other

Total

Revenues

\$  
515,015

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\$  
36,709

\$  
551,724

Depreciation and amortization

35,607

5,958

41,565

Operating income

174,426

8,022

182,448

Capital expenditures

70,937

10,345

81,282



Nine Months Ended August 31, 2007

Motorsports

All

Event

Other

Total

Revenues

\$  
530,089

\$  
35,942

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\$  
566,031

Depreciation and amortization

45,143

17,830

62,973

Operating income

148,143

861

149,004

Capital expenditures

45,739

24,700

70,439

Intersegment revenues were approximately \$2.0 million and \$1.0 million for the three months ended August 31, 2006 and 2007, respectively, and approximately \$6.8 million and \$3.0 million for the nine months ended August 31, 2006 and 2007, respectively.

**15. Condensed Consolidating Financial Statements**

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In connection with the 2004 Senior Notes, the Company is required to provide condensed consolidating financial information for its subsidiary guarantors. All of the Company's wholly-owned domestic subsidiaries have, jointly and severally, fully and unconditionally guaranteed, to each holder of 2004 Senior Notes and the trustee under the Indenture for the 2004 Senior Notes, the full and prompt performance of the Company's obligations under the indenture and the 2004 Senior Notes, including the payment of principal (or premium, if any) and interest on the 2004 Senior Notes, on an equal and ratable basis.

The subsidiary guarantees are unsecured obligations of each subsidiary guarantor and rank equally in right of payment with all senior indebtedness of that subsidiary guarantor and senior in right of payment to all subordinated indebtedness of that subsidiary guarantor. The subsidiary guarantees are effectively subordinated to any secured indebtedness of the subsidiary guarantor with respect to the assets securing the indebtedness.

In the absence of both default and notice, there are no restrictions imposed by the Company's 2000 Credit Facility, 2004 Senior Notes, or guarantees on the Company's ability to obtain funds from its subsidiaries by dividend or loan. The Company has not presented separate financial statements for each of the guarantors, because it has deemed that such financial statements would not provide the investors with any material additional information.

Included in the tables below, are condensed consolidating balance sheets as of November 30, 2006 and August 31, 2007, condensed consolidating statements of operations for the three and nine months ended August 31, 2006 and 2007, and condensed consolidating statements of cash flows for the nine months ended August 31, 2006 and 2007, of: (a) the Parent; (b) the guarantor subsidiaries; (c) elimination entries necessary to consolidate Parent with guarantor subsidiaries; and (d) the Company on a consolidated basis (in thousands).

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Condensed Consolidating Balance Sheet At November 30, 2006

Combined

Parent

Guarantor

Company

Subsidiaries

Eliminations

Consolidated

Current assets

\$  
16,396

\$  
208,430

\$

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(21,224  
)

\$  
203,602

Property and equipment, net

176,574

980,739

1,157,313

Advances to and investments  
in subsidiaries

1,659,901

734,303

(2,394,204  
)

Other assets

127,371

433,773

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561,144

Total Assets

\$  
1,980,242

\$  
2,357,245

\$  
(2,415,428  
)

\$  
1,922,059

Current liabilities

\$  
39,617

\$  
150,125

\$  
6,562

\$  
196,304

Long-term debt

1,037,135

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48,411

(718,222  
)

367,324

Deferred income taxes

58,586

133,056

191,642

Other liabilities

5

11,669

11,674

Total shareholders equity

844,899

2,013,984

(1,703,768

)

1,155,115

Total Liabilities and  
Shareholders Equity

\$  
1,980,242

\$  
2,357,245

) \$ (2,415,428

\$  
1,922,059



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Condensed Consolidating Balance Sheet At August 31, 2007

Combined

Parent

Guarantor

Company

Subsidiaries

Eliminations

Consolidated

Current assets

\$  
16,639

\$  
205,054

\$  
(24,576  
)

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\$  
197,117

Property and equipment, net

187,684

1,093,699

1,281,383

Advances to and investments  
in subsidiaries

2,985,732

988,354

(3,974,086  
)

Other assets

134,829

420,576

555,405

Total Assets

\$  
3,324,884

\$  
2,707,683

\$  
(3,998,662  
)

\$  
2,033,905

Current liabilities

\$  
49,258

\$  
213,889

\$  
785

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\$  
263,932

Long-term debt

1,313,043

101,139

(1,038,528  
)

375,654

Deferred income taxes

73,300

133,405

206,705

Other liabilities

21,814

21,814

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Total shareholders equity

1,889,283

2,237,436

(2,960,919  
)

1,165,800

Total Liabilities and  
Shareholders Equity

\$  
3,324,884

\$  
2,707,683

\$  
(3,998,662  
)

\$  
2,033,905

Condensed Consolidating Statement of Operations

For The Three Months Ended August 31, 2006

Combined

Parent

Guarantor

Company

Subsidiaries

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Eliminations

Consolidated

Total revenues

\$  
566

\$  
206,793

\$  
(28,467  
)

\$  
178,892

Total expenses

10,793

144,758

(28,467  
)

127,084

Operating (loss) income

(10,227  
)

62,035

51,808

Interest and other (expense)  
income, net

(5,260  
)

15,239

(5,878  
)

4,101

(Loss) income from  
continuing operations

(28,638  
)

68,815

(5,878  
)

34,299

Net (loss) income

(28,638  
)

68,788

(5,878  
)



34,272

Condensed Consolidating Statement of Operations

For The Three Months Ended August 31, 2007

Combined

Parent

Guarantor

Company

Subsidiaries

Eliminations

Consolidated

Total revenues

\$  
46

\$  
223,253

\$  
(26,999  
)

\$  
196,300

Total expenses

17,358

157,728

(26,999  
)

148,087

Operating (loss) income

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(17,312  
)

65,525

48,213

Interest and other (expense)  
income, net

(10,352  
)

(5,111  
)

(4,321  
)

(19,784  
)

(Loss) income from  
continuing operations

(38,463  
)

52,331

(4,321  
)

9,547

Net (loss) income

(38,463  
)

52,301

(4,321  
)

9,517

Condensed Consolidating Statement of Operations

For The Nine Months Ended August 31, 2006

Combined

Parent

Guarantor

Company

Subsidiaries

Eliminations

Consolidated

Total revenues

\$  
1,779

\$  
660,710

\$  
(117,579  
)

\$  
544,910

Total expenses

29,215

450,826

(117,579

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)

362,462

Operating (loss) income

(27,436

)

209,884

182,448

Interest and other  
(expense) income, net

(13,609

)

32,551

(24,403

)

(5,461

)

(Loss) income from  
continuing operations

(78,735

)

212,296

(24,403

)

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109,158

Net (loss) income

(78,735  
)

212,150

(24,403  
)

109,012

Condensed Consolidating Statement of Operations

For The Nine Months Ended August 31, 2007

Combined

Parent

Guarantor

Company

Subsidiaries

Eliminations

Consolidated

Total revenues

\$  
608

\$  
673,796

\$  
(111,383  
)

\$  
563,021

Total expenses



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42,296

483,104

(111,383  
)

414,017

Operating (loss) income

(41,688  
)

190,692

149,004

Interest and other  
(expense) income, net

(18,081  
)

11,127

(22,884  
)

(29,838  
)

(Loss) income from  
continuing operations

(88,891  
)

175,557

(22,884  
)

63,782

Net (loss) income

(88,891  
)

175,501

(22,884  
)

63,726

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Condensed Consolidating Statement of Cash Flows

For The Nine Months Ended August 31, 2006

Combined

Parent

Guarantor

Company

Subsidiaries

Eliminations

Consolidated

Net cash (used in) provided  
by operating activities

\$  
(56,872  
)

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\$  
273,469

\$  
(22,269  
)

\$  
194,328

Net cash provided by  
(used in) investing  
activities

55,687

(355,988  
)

22,269

(278,032  
)

Net cash used in  
financing activities

(4,768  
)

(4,768  
)

Condensed Consolidating Statement of Cash Flows

For The Nine Months Ended August 31, 2007

Combined

Parent

Guarantor

Company

Subsidiaries

Eliminations

Consolidated

Net cash (used in) provided  
by operating activities

\$  
(56,169  
)

\$  
283,075

\$  
(25,309  
)

\$  
201,597

Net cash provided by  
(used in) investing  
activities

112,493

(256,477  
)

25,309

(118,675  
)

Net cash used in  
financing activities

(56,283  
)

(29,311  
)

(85,594  
)

20

**PART I. FINANCIAL INFORMATION**

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

**Results of Operations**

**General**

The general nature of our business is a motorsports themed amusement enterprise; furnishing amusement to the public in the form of motorsports themed entertainment. We derive revenues primarily from (i) admissions to motorsports events and motorsports themed amusement activities held at our facilities, (ii) revenue generated in conjunction with or as a result of motorsports events and motorsports themed amusement activities conducted at our facilities, and (iii) catering, concession and merchandising services during or as a result of these events and amusement activities.

Admissions, net revenue includes ticket sales for all of our racing events, activities at Daytona 500 eXperience and other motorsports activities and amusements, net of any applicable taxes.

Motorsports related revenue primarily includes television, radio and ancillary rights fees, marketing partnership fees, hospitality rentals (including luxury suites, chalets and the hospitality portion of club seating), advertising, track rentals and royalties from licenses of trademarks.

Food, beverage and merchandise revenue includes revenues from concession stands, direct sales of souvenirs, hospitality catering, programs and other merchandise and fees paid by third party vendors for the right to occupy space to sell souvenirs and concessions at our facilities.

Direct expenses include (i) prize and point fund monies and NASCAR sanction fees, (ii) motorsport related expenses, which include labor, advertising, costs of competition paid to sanctioning bodies.

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other than NASCAR and other expenses associated with the promotion of all of our motorsports events and activities, and (iii) food, beverage and merchandise expenses, consisting primarily of labor and costs of goods sold.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While our estimates and assumptions are based on conditions existing at and trends leading up to the time the estimates and assumptions are made, actual results could differ materially from those estimates and assumptions. We continually review our accounting policies, how they are applied and how they are reported and disclosed in the financial statements.

The following is a summary of our critical accounting policies and estimates and how they are applied in the preparation of the financial statements.

*Basis of Presentation and Consolidation.* We consolidate all entities we control by ownership of a majority voting interest. Also, if we ever have variable interest entities for which we are the primary beneficiary, we will consolidate those entities. Our judgment in determining if we are the primary beneficiary of a variable interest entity includes assessing our level of involvement in establishing the entity, determining whether we provide more than half of any management, operational or financial support to the entity, and determining if we absorb the majority of the entity's expected losses or returns.

We apply the equity method of accounting for our investments in joint ventures and other investees whenever we can exert significant influence on the investee but do not have effective control over the investee. Our consolidated net income includes our share of the net earnings or losses from these investees. Our judgment regarding the level of influence over each equity method investee includes considering factors such as our ownership interest, board representation and policy making decisions. We periodically

21

evaluate these equity investments for potential impairment where a decline in value is determined to be other than temporary.

We eliminate all significant intercompany transactions from financial results.

*Revenue Recognition.* Advance ticket sales and event-related revenues for future events are deferred until earned, which is generally once the events are conducted. The recognition of event-related expenses is matched with the recognition of event-related revenues.

NASCAR contracts directly with certain network providers for television rights to the entire NASCAR NEXTEL Cup, Busch and Craftsman Truck series schedules. Event promoters share in the television rights fees in accordance with the provision of the sanction agreement for each NASCAR NEXTEL Cup



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Busch and Craftsman Truck series event. Under the terms of this arrangement, NASCAR retains 10.0 percent of the gross broadcast rights fees allocated to each NASCAR NEXTEL Cup, Busch and Craftsman Truck series event as a component of its sanction fees and remits the remaining 90.0 percent to the event promoter. The event promoter pays 25.0 percent of the gross broadcast rights fees allocated to the event as part of awards to the competitors.

Our revenues from marketing partnerships are paid in accordance with negotiated contracts, with the identities of partners and the terms of sponsorship changing from time to time. Some of our marketing partnership agreements are for multiple facilities and/or events and include multiple specified elements, such as tickets, hospitality chalets, suites, display space and signage for each included event. The allocation of such marketing partnership revenues between the multiple elements, events and facilities is based on relative fair value. The sponsorship revenue allocated to an event is recognized when the event is conducted.

Revenues and related costs from the sale of merchandise to retail customers, internet sales and direct sales to dealers are recognized at the time of sale.

*Accounts Receivable.* We regularly review the collectibility of our accounts receivable. An allowance for doubtful accounts is estimated based on historical experience of write-offs and future expectations of conditions that might impact the collectibility of accounts.

*Business Combinations.* All business combinations are accounted for under the purchase method. Whether net assets or common stock is acquired, fair values are determined and assigned to the purchased assets and assumed liabilities of the acquired entity. The excess of the cost of the acquisition over fair value of the net assets acquired (including recognized intangibles) is recorded as goodwill. Business combinations involving existing motorsports entertainment facilities commonly result in a significant portion of the purchase price being allocated to the fair value of the contract-based intangible asset associated with long-term relationships manifest in the sanction agreements with sanctioning bodies, such as NASCAR, Grand American Road Racing Association ( Grand American ) and/or Indy Racing League ( IRL ). The continuity of sanction agreements with these bodies has historically enabled the facility operator to host motorsports events year after year. While individual sanction agreements may be of terms as short as one year, a significant portion of the purchase price in excess of the fair value of acquired tangible assets is commonly paid to acquire anticipated future cash flows from events promoted pursuant to these agreements which are expected to continue for the foreseeable future and therefore, in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 141, are recorded as indefinite-lived intangible assets recognized apart from goodwill.

*Capitalization and Depreciation Policies.* Property and equipment are stated at cost. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Depreciation and amortization for financial statement purposes are provided on a straight-line basis over the estimated useful lives of the assets. When we construct assets, we capitalize costs of the project, including, but not limited to, certain preacquisition costs, permitting costs, fees paid to architects and contractors, certain costs of our design and construction subsidiary, property taxes and interest.

We must make estimates and assumptions when accounting for capital expenditures. Whether an expenditure is considered an operating expense or a capital asset is a matter of judgment. When constructing or purchasing assets, we must determine whether existing assets are being replaced or

otherwise impaired, which also is a matter of judgment. Our depreciation expense for financial statement purposes is highly dependent on the assumptions we make about our assets' estimated useful lives. We determine the estimated useful lives based upon our experience with similar assets, industry, legal and regulatory factors, and our expectations of the usage of the asset. Whenever events or circumstances occur which change the estimated useful life of an asset, we account for the change prospectively.

Interest costs associated with major development and construction projects are capitalized as part of the cost of the project. Interest is typically capitalized on amounts expended using the weighted-average cost of our outstanding borrowings, since we typically do not borrow funds directly related to a development or construction project. We capitalize interest on a project when development or construction activities begin and cease when such activities are substantially complete or are suspended for more than a brief period.

*Impairment of Long-lived Assets, Goodwill and Other Intangible Assets.* Our consolidated balance sheets include significant amounts of long-lived assets, goodwill and other intangible assets. Our intangible assets are comprised of assets having finite useful lives, which are amortized over their useful life period, and goodwill and other non-amortizable intangible assets with indefinite useful lives. Current accounting standards require testing these assets for impairment, either upon the occurrence of an impairment indicator or annually, based on assumptions regarding our future business outlook. While we continue to review and analyze many factors that can impact our business prospects in the future, our analyses are subjective and are based on conditions existing at and trends leading up to the time the estimates and assumptions are made. Actual results could differ materially from these estimates and assumptions. Our judgments with regard to our future business prospects could impact whether or not an impairment is deemed to have occurred, as well as the timing of the recognition of such an impairment charge. Our equity method investees also perform such tests for impairment of long-lived assets, goodwill and other intangible assets.

*Self-Insurance Reserves.* We use a combination of insurance and self-insurance for a number of risks including general liability, workers' compensation, vehicle liability and employee-related health care benefits. Liabilities associated with the risks that we retain are estimated by considering various historical trends and forward-looking assumptions related to costs, claim counts and payments. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

*Income Taxes.* The tax law requires that certain items be included in our tax return at different times than when these items are reflected in our consolidated financial statements. Some of these differences are permanent, such as expenses not deductible on our tax return. However, some differences reverse over time, such as depreciation expense, and these temporary differences create deferred tax assets and liabilities. Our estimates of deferred income taxes and the significant items giving rise to deferred tax assets and liabilities reflect our assessment of actual future taxes to be paid on items reflected in our financial statements, giving consideration to both timing and probability of realization. Actual income taxes could vary significantly from these estimates due to future changes in income tax law or changes or adjustments resulting from final review of our tax returns by taxing authorities, which could also adversely impact our cash flow.

In the ordinary course of business, there are many transactions and calculations where the ultimate tax outcome is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws. We recognize probable liabilities for tax audit issues, including interest and penalties, based on an estimate of the ultimate resolution of whether, and the extent to which, additional taxes will be due. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals. Such differences could

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have an impact on the income tax provision and operating results in the period in which such determination is made.

*Contingent Liabilities.* Our determination of the treatment of contingent liabilities in the financial statements is based on our view of the expected outcome of the applicable contingency. In the ordinary course of business we consult with legal counsel on matters related to litigation and other experts both within and outside our company. We accrue a liability if the likelihood of an adverse outcome is probable and the amount of loss is reasonably estimable. We disclose the matter but do not accrue a liability if either the likelihood of an adverse outcome is only reasonably possible or an estimate of loss is not determinable. Legal and other costs incurred in conjunction with loss contingencies are expensed as incurred.

23

### **Acquisition and Divestitures**

#### *Raceway Associates, LLC*

On February 2, 2007, we acquired the 62.5 percent ownership interest in Raceway Associates, LLC (Raceway Associates) we did not previously own, bringing our ownership to 100.0 percent. Raceway Associates operates Chicagoland Speedway (Chicagoland) and Route 66 Raceway (Route 66). The purchase price for the 62.5 percent ownership interest totaled approximately \$111.1 million, including approximately \$102.4 million paid to the prior owners, the assumption of third party liabilities and acquisition costs, net of cash received. The purchase price was paid with cash on hand and approximately \$65.0 million in borrowings on our revolving credit facility. This transaction has been accounted for as a business combination and is included in our consolidated operations subsequent to the date of acquisition.

We believe that Chicagoland and Route 66 are uniquely attractive assets well-positioned in the nation's third largest media market with a strong motorsports fan base. The purchase price for the Raceway Associates acquisition was preliminarily allocated to the assets acquired and liabilities assumed based on their fair market values at the acquisition date as determined primarily by an independent appraisal. Included in this acquisition are certain indefinite-lived intangible assets attributable to the sanction agreements in place at the time of acquisition and goodwill.

#### *Nazareth Speedway*

After the completion of Nazareth Speedway's (Nazareth) fiscal 2004 events we suspended indefinitely its major motorsports event operations. The NASCAR Busch Series and Indy Racing League (IRL) IndyCar Series events, then conducted at Nazareth, were realigned to other motorsports entertainment facilities within our portfolio.

In January 2006, we entered into an agreement with NZSW, LLC for the sale of 158 acres, on which Nazareth Speedway is located, for approximately \$18.8 million. Under the terms of the contract the sale transaction is expected to close during fiscal 2007. Upon closing the transaction, we expect

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to record an after-tax gain from discontinued operations of approximately \$6.0 million to \$7.0 million, or \$0.11 to \$0.13 per diluted share.

For all periods presented, the results of operations of Nazareth are presented as discontinued operations.

### **Impairment of Long-Lived Assets**

#### *Northwest US Speedway Development*

Since 2005, we had been pursuing development of a motorsports entertainment facility in Kitsap County, Washington, which required State Legislation to help finance the project. In early 2007 this legislation was introduced in both the Washington State House of Representatives and Senate. On April 2, 2007, we announced that despite agreeing to substantial changes to the required legislation it had become apparent that additional modifications would be proposed to the bill. Due to the increased risk that the collective modifications would have a significant negative impact on the project's financial model, we felt it was in our best long-term interest to discontinue our efforts at the site. As a result, we recorded a non-cash pre-tax charge in the fiscal 2007 second quarter of approximately \$5.9 million, or \$0.07 per diluted share after-tax, to reflect the write-off of certain capitalized costs including legal, consulting, capitalized interest and other project-specific costs. The charge is included in Impairment of Long-lived Assets in our consolidated statements of operations for the nine months ended August 31, 2007. We still believe the Pacific Northwest represents an attractive long-term opportunity, and remain interested in a motorsports entertainment facility development project in the region.

#### *New York Metropolitan Speedway Development*

In September 2006 we ceased fill operations at our Staten Island real property while we addressed the issues raised in communications from the New York State Department of Environmental Conservation ( DEC ) and the New York City Department of Sanitation ( DOS ), including the presence of, and potential need to remediate, fill containing constituents above regulatory thresholds. In May 2007, we entered into a Consent Order with the DEC to resolve the issues surrounding these fill operations and the prior placement of fill at the site that contained constituents above regulatory thresholds. The Consent

24

Order requires us to remove non-compliant fill pursuant to an approved comprehensive fill removal plan. We commenced fill removal activities in September 2007, and we expect the fill removal to be complete in three to four months. The Consent Order also required us to pay a penalty of \$3.0 million, half of which was paid in May 2007 and the other half of which has been suspended so long as we comply with the terms of the Consent Order. Included in Impairment of Long-lived Assets in our consolidated statements of operations for the three and nine months ended August 31, 2007, is our estimated total costs, including the portion of the penalty which has been paid, attributable to the expected fill removal process of approximately \$108,000 and \$3.0 million, respectively, or \$0.00 and \$0.04 per diluted share after-tax, respectively. The costs associated with the fill

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removal process will be paid within the next several months, as the fill is removed. We continue to evaluate the existence of other responsible parties and potential recoveries from such parties if any. We expect to resume fill operations within the next several months after complying with the Consent Order and once other appropriate regulatory approvals are obtained. We recently entered into negotiations with a third party for the sale of the 676-acre Staten Island property.

### **Limited Partnership Agreement**

In October 2006 we entered into a limited partnership agreement with Group Motorisé International ( GMI ) to organize, promote and hold certain racing events at Circuit Gilles Villeneuve, including a NASCAR Busch Series and Grand American Rolex Sports Car Series presented by Crown Royal Special Reserve race weekend during the third quarter of fiscal 2007. Circuit Gilles Villeneuve is a road course located in Montréal, Quebec, at which GMI currently promotes a successful F1 Canadian Grand Prix event. The agreement did not have a material effect on our financial condition or results of operations in fiscal 2007.

### **Stock Repurchases**

In December 2006 we announced that our Board of Directors had authorized a share repurchase program ( Stock Purchase Plan ) under which we may purchase up to \$50.0 million of our outstanding Class A common shares. In July 2007, our Board of Directors authorized a \$100.0 million increase to the Stock Purchase Plan allowing us to purchase up to a total of \$150.0 million of our outstanding Class A common shares through November 30, 2008. The timing and amount of any shares repurchased under the Stock Purchase Plan will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability and other market conditions. The Stock Purchase Plan may be suspended or discontinued at any time without prior notice. No shares have been or will be knowingly purchased from Company insiders or their affiliates. During the nine months ended August 31, 2007, we purchased 993,143 shares of our Class A common shares, at an average cost of approximately \$51.20 per share (including commissions), for a total of approximately \$51.0 million under the Stock Purchase Plan.

### **Income Taxes**

The tax treatment of providing a valuation allowance related to the losses incurred in our equity cause of the increased effective income tax rate during the three and nine months ended August 31, 2007.

Also, in July 2007, the state of Michigan enacted Senate Bill 94, known as the Michigan Business Tax, which replaces their single business tax with a business income tax and a modified gross receipts tax. These new taxes take effect on January 1, 2008 and are accounted for as income tax under SFAS No. 109 Accounting for Income Taxes . SFAS No. 109 stipulates accounting for the effects of tax law changes in the period of enactment. Therefore, even though the new income tax regime is not effective until our fiscal year 2008, we accounted for the tax law changes in our third quarter of fiscal 2007. The effect of the tax changes was to increase deferred income tax expense by approximately \$1.6 million, or approximately \$0.03 per diluted share after-tax, during the three and nine months ended August 31, 2007.

As a result of the above items our effective income tax rate increased from the statutory income tax rate of 46.5 percent, respectively for the three and nine months ended August 31, 2007,

**Future Trends in Operating Results**

Our success has been, and is expected to remain, dependent on maintaining good working relationships with the organizations that sanction events at our facilities, particularly with NASCAR, whose sanctioned

25

events at our wholly-owned facilities accounted for approximately 87.6 percent of our revenues in fiscal 2006. In January 2003, NASCAR announced it would entertain and discuss proposals from track operators regarding potential realignment of NASCAR NEXTEL Cup Series dates to more geographically diverse and potentially more desirable markets where there may be an opportunity for increased revenues to the track operators. NASCAR approved realignments of certain NASCAR NEXTEL Cup and other events at our facilities for the 2004, 2005, 2006 and 2007 seasons. We believe that the realignments have provided, and will continue to provide, incremental net positive revenue and earnings as well as further enhance the sport's exposure in highly desirable markets, which we believe benefits the sport's fans, teams, sponsors and television broadcast partners as well as promoters. NASCAR has indicated that it is open to discussion regarding additional date realignments. We believe we are well positioned to capitalize on these future opportunities.

Fiscal 2006 was our last year under NASCAR's multi-year consolidated television broadcast rights agreements with NBC Sports, Turner Sports, FOX and FX. Television broadcast and ancillary rights fees from continuing operations received from NASCAR for the NASCAR NEXTEL Cup and NASCAR Busch series events conducted at our wholly-owned facilities under these agreements for fiscal 2006 were approximately \$273.4 million. NASCAR has entered into new combined eight-year agreements with FOX, ABC/ESPN, TNT and SPEED beginning in 2007 for the domestic broadcast and related rights for its NEXTEL Cup, Busch and Craftsman Truck series. The agreements are expected to total approximately \$4.5 billion over the eight year period from 2007 through 2014. This results in an approximate \$560.0 million gross average annual rights fee for the industry, a more than 40.0 percent increase over the previous contract average of \$400.0 million annually. The industry rights fees are expected to approximate \$505.0 million for 2007, with increases, on average, of approximately three percent per year through the 2014 season. The annual increase is expected to vary between two and four percent per year over the period. While the 2007 industry rights fees will be less than the 2006 industry rights fees of approximately \$576.0 million, in our opinion this should not overshadow the strategic importance and expected long-term benefits of the new contracts. Over the past several years, there has been a shift of major sports programming from network to cable. The cable broadcasters can support a higher investment through subscriber fees not available to networks, which has resulted in increased rights fees for these sports properties. Cable, however, reaches far fewer households than network broadcasts. We view NASCAR's decision to keep approximately two-thirds of its NEXTEL Cup Series event schedule on network television as important to the sport's future growth. The structure should continue to drive increased fan and media awareness for all three racing series, which will help fuel our long-term attendance and corporate-related revenues. We also welcome the chance to re-establish the sport's broadcast relationship with ESPN, which we believe will result in further exposure for NASCAR racing. First, we believe the NASCAR Busch Series will significantly benefit from the improved continuity of its season-long presence on ESPN. In addition, we believe the sport as a whole will benefit from the increased ancillary programming and nightly and weekly NASCAR-branded programming and promotions, similar to what ESPN does with the other major sports. The most significant benefit of the new contracts is the substantial increase in earnings and cash flow visibility for the entire industry over the contract period.

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As media rights revenues fluctuate so do the variable costs tied to the percentage of broadcast rights fees required to be paid to competitors as part of NASCAR NEXTEL Cup, Busch and Craftsman Truck series sanction agreements. NASCAR prize and point fund monies, as well as sanction fees ( NASCAR direct expenses ), are outlined in the sanction agreement for each event and are negotiated in advance of an event. As previously discussed, included in these NASCAR direct expenses are 25.0 percent of the gross domestic television broadcast rights fees allocated to our NASCAR NEXTEL Cup, Busch and Craftsman Truck series events as part of prize and point fund money. These annually negotiated contractual amounts paid to NASCAR contribute to the support and growth of the sport of NASCAR stock car racing through payments to the teams and sanction fees paid to NASCAR. As such, we do not expect these costs to decrease in the future as a percentage of admissions and motorsports related income. We anticipate any operating margin improvement to come primarily from economies of scale and controlling costs in areas such as motorsports related and general and administrative expenses.

Economic conditions may impact our ability to secure revenues from corporate marketing partnerships. However, we believe that our presence in key markets and impressive portfolio of events are beneficial as we continue to pursue renewal and expansion of existing marketing partnerships and establish new corporate marketing partners. We believe that revenues from our corporate marketing partnerships will continue to grow over the long term.

26

Our growth strategy includes investing in certain joint venture opportunities. In these equity

At the present time we continue to believe in the strategic rationale for our equity investment in that Motorsports Authentics has significant potential for generating future growth in earnings and cash flow.

An important component of our operating strategy has been our long-standing practice of focusing closely on supply and demand regarding additional capacity at our facilities. We continually evaluate the demand for our most popular racing events in order to add capacity that we believe will provide an acceptable rate of return on invested capital. Through prudent expansion, we attempt to keep demand at a higher level than supply, which stimulates ticket renewals and advance sales. Advance ticket sales result in earlier cash flow and reduce the potential negative impact of actual and forecasted inclement weather on ticket sales. While we will join with sponsors to offer promotions to generate additional ticket sales, we avoid rewarding last-minute ticket buyers by discounting tickets. We believe it is more important to encourage advance ticket sales and maintain price integrity to achieve long-term growth than to capture short-term incremental revenue. We recognize that a number of factors relating to discretionary consumer spending, including economic conditions affecting disposable consumer income such as employment and other lifestyle and business conditions, can negatively impact attendance at our events. Accordingly, we have instituted only modest increases in our weighted average ticket prices for fiscal 2007. In addition, we have limited the expansion of our facilities in fiscal 2007 to projects at our Richmond International Raceway ( Richmond ) which were completed for its NASCAR NEXTEL Cup and Busch series spring event. Richmond removed approximately 2,900 obstructed view grandstand seats from Turns 3 and 4 and added approximately 7,800 grandstand seats in a new, state-of-the-art, 180 foot tall structure located at Turn 1. The new, three-tiered grandstand also includes a 700-person, members-only Club for individual fans looking to enjoy a race weekend in style or businesses seeking to entertain clients. The Club also serves as a unique site for special events on non-race weekends throughout the year. We will continue to evaluate expansion opportunities, as well as the pricing and packaging of our tickets and other products, on an ongoing basis. Over the long term, we plan to continue to expand capacity at our speedways.

Since we compete with newer entertainment venues for patrons and sponsors, we will continue to evaluate opportunities to enhance our facilities, thereby producing additional revenue generating opportunities for us and improving the experience for our guests. One major example of these efforts is the infield renovation at Daytona International Speedway (Daytona) that was completed for the start of the 2005 racing season. The infield renovation features numerous fan amenities and unique revenue generating opportunities, including garage walk-through areas, additional merchandise and concessions vending areas, waterfront luxury recreational vehicle parking areas, large tunnel to accommodate team haulers and guest recreational vehicles in and out of the infield and other special amenities such as the infield's signature structure, the Daytona 500 Club. The fan and guest response to our renovation efforts at Daytona has been

27

overwhelmingly positive and has resulted in incremental direct and, we believe, indirect revenue. Our efforts to enhance the fan experience includes the fiscal 2005 renovation of Michigan International Speedway's (Michigan) front stretch, including new ticket gates, new vendor and display areas, and several new concession stands, as well as the addition of club seats and luxury suites. For fiscal 2006, we completed additional renovation projects at California Speedway (California) and Talladega Superspeedway (Talladega). At California, we renovated and expanded the facility's front midway area. The new plaza features a full-service outdoor café with cuisine by celebrity chef Wolfgang Puck, in addition to a town center, retail store and concert stage. Other highlights include shade features, modified entry gates, expanded hospitality areas, radio broadcast locations, giant video walls, leisure areas and grass and water accents. This project was the direct result of fan feedback, and further demonstrates our commitment to providing a premium entertainment environment for our guests. We also repaved Talladega's 2.6 mile oval. Talladega's racing surface had not been repaved since 1979, and we believe the newly paved racing surface enhanced the thrilling on-track competition.

#### **Current Litigation**

From time to time, we are a party to routine litigation incidental to our business. We do not believe that the resolution of any or all of such litigation will have a material adverse effect on our financial condition or results of operations.

In addition to such routine litigation incidental to our business, we are a party to the litigation described below.

In July 2005, Kentucky Speedway, LLC filed a civil action in the Eastern District of Kentucky against NASCAR and us alleging that NASCAR and ISC have acted, and continue to act, individually and in combination and collusion with each other and other companies that control motorsports entertainment facilities hosting NASCAR NEXTEL Cup Series, to illegally restrict the award of ... NASCAR NEXTEL Cup Series [races]. The complaint was recently amended to seek, in addition to damages, an injunction requiring NASCAR to develop objective factors for the award of NEXTEL Cup races, divestiture of ISC and NASCAR so that the France Family and anyone else does not share ownership of both companies or serve as officers or directors of both companies, ISC's divestiture of at least 8 of its 12 racetracks that currently operate a NEXTEL Cup race and prohibiting further alleged violations of the antitrust laws. Curiously, the complaint does not



ask the court to cause NASCAR to award a NEXTEL Cup race to the Kentucky Speedway. Other than some vaguely conclusory allegations, the complaint fails to specify any specific unlawful conduct by us. Pre-trial discovery in the case was recently concluded and based upon all of the evidentiary materials adduced we believe even more strongly than before that the case is without legal or factual merit. At this point the likelihood of a materially adverse result appears to be remote, although there is always an element of uncertainty in litigation. It is premature to attempt to quantify the potential magnitude of a remotely possible adverse decision, although we intend to continue to defend ourselves vigorously while maintaining potential claims and remedies available to us to recover the damages caused by the filing of the suit. At a status conference in late May 2007 the Court modified the timeline for the case to extend the time periods for the conclusion of submission of summary judgment materials until September 24, 2007 and to tentatively set the date for a trial (if needed) of up to five weeks beginning in March 2008. The fees and expenses associated with the defense of this suit are not covered by insurance and could adversely impact our financial condition or results of operations and cash flows, even if we prevail. Further, the time devoted to this matter by management and the possible impact of litigation on business negotiations occurring prior to resolution of this matter could also adversely impact our financial condition or results of operations and cash flows. Finally, even if the direct effect of the resolution of this case does not result in a material adverse impact on us, it is remotely possible that the resolution of this case could result in industry wide changes in the way race schedules are determined by sanctioning bodies, which could indirectly have a material adverse impact on us.

#### **Postponement and/or Cancellation of Major Motorsports Events**

The postponement or cancellation of one or more major motorsports events could adversely impact our future operating results. A postponement or cancellation could be caused by a number of factors, including, but not limited to, inclement weather, a widespread outbreak of a severe epidemiologic crisis, a general postponement or cancellation of all major sporting events in this country (as occurred following the September 11, 2001 terrorist attacks), a terrorist attack at any mass gathering or fear of such an attack, conditions resulting from the war in Iraq or other acts or prospects of war.

28

#### **Seasonality and Quarterly Results**

We derive most of our income from a limited number of NASCAR-sanctioned races. As a result, our business has been, and is expected to remain, highly seasonal based on the timing of major racing events.

For example, one of our NASCAR NEXTEL Cup races is traditionally held on the Sunday preceding Labor Day. Accordingly, the revenues and expenses for that race and/or the related supporting events may be recognized in either the fiscal quarter ending August 31 or the fiscal quarter ending November 30.

Future schedule changes as determined by NASCAR or other sanctioning bodies, as well as the acquisition of additional, or divestiture of existing, motorsports facilities could impact the timing of our major events in comparison to prior or future periods.

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Because of the seasonal concentration of racing events, the results of operations for the three and nine month periods ended August 31, 2006 and 2007 are not indicative of the results to be expected for the year.

### **Comparison of the Results for the Three and Nine Months Ended August 31, 2007 to the Results for the Three and Nine Months Ended August 31, 2006.**

The following table sets forth, for each of the indicated periods, certain selected statement of operations data as a percentage of total revenues:

Three Months Ended

Nine Months Ended

August 31,

August 31,

August 31,

August 31,

2006

2007

2006

2007

(Unaudited)

Revenues:

Admissions, net

31.8

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%

32.1

%

29.7

%

31.2

%

Motorsports related

56.2

57.9

58.1

57.6

Food, beverage and merchandise

10.9

9.0

10.9

10.1

Other

1.1

1.0

1.3

1.1

Total revenues

100.0

100.0

100.0

100.0

Expenses:

Direct expenses:

Prize and point fund monies and NASCAR  
sanction fees

16.9

17.9

18.3

18.0

Motorsports related

23.3

24.0

19.2

20.7

Food, beverage and merchandise

6.9

5.4

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6.8

6.0

General and administrative

15.9

16.0

14.6

16.0

Depreciation and amortization

8.0

12.1

7.6

11.2

Impairment of long-lived assets

0.0

0.0

0.0

1.6

Total expenses

71.0

75.4

66.5

73.5

Operating income

29.0

24.6

33.5

26.5

Interest income

0.8



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0.7

0.6

0.7

Interest expense

(1.5  
)

(2.1  
)

(1.8  
)

(2.1  
)

Equity in net loss from equity investments

3.0

(8.7  
)

0.1

(3.9  
)

Income from continuing operations before income taxes

31.3

14.5

32.4

21.2

Income taxes

12.1

9.6

12.4

9.9

Income from continuing operations

19.2

4.9

20.0

11.3

Loss from discontinued operations

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0.0

0.0

0.0

0.0

Net income

19.2  
%

4.9  
%

20.0  
%

11.3  
%

The comparison of the three and nine months ended August 31, 2007 to the same periods of the prior year is impacted by the following factors:

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Fiscal 2006 was our last year under NASCAR's multi-year consolidated television broadcast rights agreement with NBC Sports, Turner Sports, FOX, and FX. Beginning in 2007, NASCAR has entered into new combined eight year agreements with FOX, ABC/ESPN, TNT, and Speed for

29

the domestic broadcast and related rights for its NEXTEL Cup, Busch, and Craftsman Truck series. While the average annual broadcast rights for the contract beginning in 2007 is higher than the average for the contract ended in 2006, 2007 rights fees will be less than the 2006 rights fees. See discussion under Future Trends in Operating Results.

On February 2, 2007, we acquired the 62.5 percent ownership interest in Raceway Associates we did not previously own, bringing our ownership to 100.0 percent. This acquisition was accounted for as a business combination and the operations of Raceway Associates are included in our consolidated operations subsequent to the date of acquisition. Raceway Associates operates Chicagoland Speedway ( Chicagoland ) and Route 66 Raceway ( Route 66 ). Prior to this date, we had accounted for their operations as an equity method investment. A NASCAR Busch Series event and NEXTEL Cup Series event were held at Chicagoland along with a NHRA POWERade Drag Racing Series event at Route 66 in the third fiscal quarter of 2007.

In the second and third quarter of fiscal 2007 we recognized impairments of long-lived assets totaling approximately \$9.2 million, or \$0.11 per diluted share after-tax, primarily attributable to the aforementioned discontinuance of the speedway development in

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Kitsap County, Washington and the costs associated with the fill removal process at our Staten Island property.

In the third quarter of fiscal 2007 we recognized approximately \$1.6 million, or \$0.03 per diluted share after-tax, in deferred income tax expense attributable to the enactment of an income based tax system in the state of Michigan. See discussion under Income Taxes.

In the third quarter of fiscal 2007, included in Equity in Net Loss From Equity Investments in our consolidated statements of operations, we recognized our portion of Motorsports Authentics write-down of certain inventory and related assets of approximately \$12.4 million, or \$0.24 per diluted share after tax.

The following event schedule changes also impact comparability:

An IRL Series event and NASCAR Craftsman Truck Series event were held at the Kansas Speedway ( Kansas ) in the third quarter of fiscal 2006. The corresponding events were conducted in the second quarter of fiscal 2007.

A Grand American event was held at Phoenix International Raceway ( Phoenix ) in the second fiscal quarter of 2006 while no corresponding event was held in 2007.

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A NASCAR Busch Series event was held at Martinsville Speedway ( Martinsville ) in the third fiscal quarter of 2006. In connection with our limited partnership agreement with GMI, the NASCAR Busch Series event was realigned to and held at Circuit Gilles Villeneuve in the third quarter of fiscal 2007. The operations of the limited partnership with GMI, including the realigned NASCAR Busch Series event, are accounted for as an equity method investment. See discussion under Limited Partnership Agreement.

Admissions revenue increased approximately \$6.1 million, or 10.6 percent, and \$13.8 million, or 8 percent, during the three and nine months ended August 31, 2007, respectively, as compared to the same periods of the prior year. The majority of the increase for the three month period is attributable to the consolidation of Chicagoland and Route 66. The increase is substantially offset by the movement of the IRL and NASCAR Craftsman Truck series events at Kansas to the second quarter in fiscal 2007. A decrease in attendance for the Pepsi 400 weekend at Daytona and the Jun NASCAR weekend at Michigan also partially offset the increase. The increase for the nine month period is attributable to aforementioned factors, with the exception of the timing of events at Kansas, as well as the addition of seat and club expansion at Richmond in the second quarter of fiscal 2007.

Motorsports related revenue increased approximately 13.1 million, or 13.1 percent, and 7.3 million, or 2.3 percent during the three months and nine months ended August 31, 2007, respectively, as compared to the same respective periods of the prior year. The majority of the increase for the three month period is attributable to the consolidation of Chicagoland and Route 66. The previously discussed decrease in the television broadcast and ancillary rights for our NASCAR NEXTEL Cup, Busch, and Craftsman Truck

30

series, and the timing of events at Kansas partially offset the increase. The increase for the nine month period is attributable to aforementioned factors with the exception of the timing of events at Kansas.

Food, beverage and merchandise revenue decreased approximately \$1.7 million, or 9.0 percent, and \$2.4 million, or 4.0 percent, during the three and nine months ended August 31, 2007, respectively, as compared to the same periods of the prior year. The decrease for the three month period is substantially attributable to the timing of events at Kansas and inclement weather at the August event. The decrease was partially offset by the consolidation of Chicagoland and Route 66. Attendance for certain NASCAR events conducted during Speedweeks at Daytona and inclement weather at the August NEXTEL Cup event at Michigan contributed to the decrease in the nine month period.

Prize and point fund monies and NASCAR sanction fees increased approximately \$4.7 million, or 15.1 percent, and \$1.9 million, or 1.9 percent, during the three and nine months ended August 31, 2007, as compared to the same periods of the prior year. The increases are primarily attributable to the consolidation of Chicagoland, partially offset by a decrease in television broadcast rights fees for the NASCAR NEXTEL Cup, Busch and Craftsman Truck series events during the periods as standard NASCAR sanctioning agreements require that a specific percentage of television broadcast rights fees be paid to competitors.

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Motorsports related expenses increased by approximately \$5.5 million, or 13.2 percent, and \$12.0 million, or 11.4 percent, during the three and nine months ended August 31, 2007, respectively, as compared to the same periods of the prior year. The increase for the three month period is primarily attributable to the consolidation of Chicagoland and Route 66 and was partially offset by the timing of events at Kansas. The increase for the nine month period is primarily due to the consolidation of Chicagoland and Route 66. Motorsports related expenses as a percentage of combined admissions and motorsports related revenue increased to 26.7 percent and 23.4 percent for the three and nine months ended August 31, 2007, respectively, as compared to 26.4 percent and 21.1 percent for the same respective periods in the prior year. The margin decrease due to the previously discussed decrease in television broadcast and ancillary rights fees for the NASCAR NEXTEL Cup, Busch, and Craftsman Truck series events during the three and nine month periods more than offset the margin increase from the consolidation of Chicagoland and Route 66.

Food, beverage and merchandise expense decreased approximately \$1.8 million, or 14.7 percent, and \$3.5 million, or 9.4 percent, during the three and nine months ended August 31, 2007, respectively, as compared to the same periods of the prior year. The decrease for the three month period is primarily impacted by the timing of events at Kansas and lower variable costs. The decrease for the nine month period is primarily attributable to lower variable costs associated with lower sales related to certain decreases in attendance in the first quarter. Food, beverage and merchandise expense as a percentage of food, beverage and merchandise revenue decreased to approximately 60.0 percent and 58.8 percent for the three and nine months ended August 31, 2007, respectively, as compared to 64.0 percent and 62.3 percent for the same respective periods in the prior year. The margin increases for the three and nine month periods are substantially attributable to the consolidation of Chicagoland and Route 66. To a lesser extent the margin increase for the nine month period is attributable to improved margins in all areas of this business.

General and administrative expenses increased approximately \$3.0 million, or 10.5 percent, and \$10.5 million, or 13.2 percent, during the three and nine months ended August 31, 2007, respectively, as compared to the same periods of the prior year. The increase in the three and nine month periods is primarily attributable to the consolidation of Chicagoland and Route 66 and a net increase in costs related to our ongoing business. General and administrative expenses as a percentage of total revenues increased to approximately 16.0 percent for both the three and nine months ended August 31, 2007, as compared to 15.9 percent and 14.6 percent for the same respective periods in the prior year. The decreased margin during the three month period is primarily due to decreased revenues associated with the timing of the events at Kansas as well as the previously discussed decrease in television broadcast and ancillary rights fees for the NASCAR NEXTEL Cup, Busch, and Craftsman Truck series events. The additional revenues combined with the previously discussed expenses attributable to the consolidation of Raceway Associates substantially offset the decreased margin during the three month period. The decreased margin during the nine month period is attributable to the aforementioned factors with the exception of the timing of the events at Kansas.

Depreciation and amortization expense increased approximately \$9.5 million, or 66.3 percent, and \$21.4 million, or 51.5 percent, during the three and nine months ended August 31, 2007, respectively, as compared to the same periods of the prior year. The increases are primarily attributable to approximately

31

\$6.9 million and \$11.6 million of depreciation recognized during the three and nine months ended August 31, 2007, attributable to certain of our existing offices and

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other buildings which are expected to be razed during the next 3 to 21 months as part of our Daytona Live! project in Daytona Beach (see further discussion in Future Liquidity ). In addition we recognized approximately \$2.6 million in additional depreciation associated with a building located in Daytona Beach, Florida which ceased being used in the first fiscal quarter of 2007 and was subsequently razed. The remaining increase is related to our acquisition of Raceway Associates in February 2007, seat and club additions at Richmond, Talladega s track repaving, and other ongoing capital improvements.

The impairment of long-lived assets is primarily attributable to our announcement on April 2, 2007 that we were abandoning our pursuit of the development of a motorsports entertainment facility in Kitsap County, Washington. In addition, in May 2007, we entered into the Consent Order with DEC for the fill removal process on our Staten Island property and accrued the estimated total costs for such fill removal. See discussion under Future Liquidity Speedway Developments.

Interest income increased by approximately \$39,000, or 2.9 percent, and \$315,000, or 9.3 percent, during the three and nine months ended August 31, 2007, respectively, as compared to the same periods of the prior year. The three month increase is primarily due to higher yields on investments substantially offset by lower average cash and short-term investment balances. The nine month increase is due to higher average cash and short-term investment balances early in the first quarter coupled with higher yields on investments.

Interest expense increased by approximately \$1.3 million, or 48.9 percent, and \$2.2 million, or 22.6 percent, during the three and nine months ended August 31, 2007, respectively, as compared to the same periods of the prior year. The increases during the three and nine month periods are primarily due to less capitalized interest and the assumption of third party debt in connection with the Raceway Associates acquisition.

Equity in net income (loss) from equity investments represents our 50.0 percent equity investment in SMISC, LLC, including the previously discussed inventory and related assets write-down by Motorsports Authentics (see discussion in Future Trends in Operating Results ) and our pro rata share of the loss from our 37.5 percent equity investment in Raceway Associates prior to the acquisition of the remaining interest in February 2007. Because of the seasonal concentration of racing events, the results of operations for the three and nine month periods ended August 31, 2007, are not indicative of the results to be expected for the year.

**Our effective income tax rate increased to approximately 66.4 percent and 46.5 percent, for the three and nine months ended August 31, 2007, respectively.**

As a result of the foregoing, our income from continuing operations decreased from approximately \$34.3 million to approximately \$9.5 million, or 72.2 percent, during the three months ended August 31, 2007, as compared to the same period of the prior year and from approximately \$109.2 million to \$63.8 million, or 41.6 percent, during the nine months ended August 31, 2007, as compared to the same period of the prior year.

The operations of Nazareth are presented as discontinued operations, net of tax, for all periods presented in accordance with SFAS No. 144.



As a result of the foregoing, net income decreased from approximately \$34.3 million, or \$0.64 per diluted share, to approximately \$9.5 million, or \$0.18 per diluted share, during the three months ended August 31, 2007, as compared to the same period of the prior year and from approximately \$109.0 million, or \$2.05 per diluted share, to approximately \$63.7 million, or \$1.20 per diluted share, during the nine months ended August 31, 2007, as compared to the same period of the prior year. The decrease in the earnings per diluted share is partially offset by the reduction in the weighted average shares outstanding as a result of the previously discussed stock repurchase program.

## **Liquidity and Capital Resources**

### **General**

We have historically generated sufficient cash flow from operations to fund our working capital needs and capital expenditures at existing facilities, as well as to pay an annual cash dividend. In addition, we have used the proceeds from offerings of our Class A Common Stock, the net proceeds from the issuance of long-term debt, borrowings under our credit facilities and state and local mechanisms to fund acquisitions and development projects. At August 31, 2007, we had cash, cash equivalents and short-term investments totaling approximately \$96.3 million and long-term debt outstanding, including the current portion, of approximately \$378.2 million. The long-term debt includes approximately \$10.3 million of Raceway Associates' long-term debt which was assumed in the acquisition. We had a working capital deficit of approximately \$66.8 million at August 31, 2007, primarily as a result of the cash used for the Raceway Associates' acquisition and acquisitions of our common stock under our Stock Purchase Plan. At November 30, 2006, we had working capital of approximately \$7.3 million.

Our liquidity is primarily generated from our ongoing motorsports operations, and we expect our strong operating cash flow to continue in the future. In addition, as of August 31, 2007, we have approximately \$300 million available to draw upon under our revolving credit facility, if needed. See **Future Liquidity** for additional disclosures relating to our credit facility and certain risks that may affect our near term operating results and liquidity.

### **Cash Flows**

Net cash provided by operating activities was approximately \$201.6 million for the nine months ended August 31, 2007, compared to approximately \$194.3 million for the nine months ended August 31, 2006. The difference between our net income of approximately \$63.7 million and the approximately \$201.6 million of operating cash flow was primarily attributable to:

depreciation and amortization expense of approximately \$63.0 million;

an increase in deferred income of approximately \$58.5 million;

loss from equity investments of approximately \$21.8 million;

deferred income taxes of approximately \$16.0 million;

an increase in accounts payable of approximately \$9.5 million;

non-cash impairments of long-lived assets of approximately \$6.1 million; and

stock-based compensation of approximately \$3.2 million

These differences were partially offset by an increase in inventories, prepaid expenses and other assets of approximately \$28.7 million, deposits with the Internal Revenue Service of approximately \$7.1 million, an increase in accounts receivable of approximately \$3.3 million, and income taxes approximately \$2.6 million.

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Net cash used in investing activities was approximately \$118.7 million for the nine months ended August 31, 2007, compared to approximately \$278.0 million for the nine months ended August 31, 2006. Our use of cash for investing activities reflects our acquisition of the remaining 62.5 percent interest in Raceway Associates we did not previously own totaling approximately \$87.1 million, net of cash acquired, approximately \$70.4 million in capital expenditures and purchases short-term investments of

33

approximately \$66.4 million. This use of cash is partially offset by approximately \$105.1 million in proceeds from the sale of short-term investments.

Net cash used in financing activities was approximately \$85.6 million for the nine months ended August 31, 2007, compared to approximately \$4.8 for the nine months ended August 31, 2006. Cash used in financing activities reflects \$65.0 million of payments under our 2006 Credit Facility, approximately \$51.5 million in acquisitions of previously issued common stock, payments of approximately \$29.3 million of long-term debt assumed in connection with the acquisition of Raceway Associates and approximately \$5.3 million in cash dividends paid. Partially offsetting the cash used is \$65.0 million in borrowings under our 2006 Credit Facility.

### **Capital Expenditures**

Capital expenditures totaled approximately \$70.4 million for the nine months ended August 31, 2007 compared to approximately \$81.3 million for the nine months ended August 31, 2006. The capital expenditures during the nine months ended August 31, 2007, related to the construction of certain buildings supporting our operations and administration functions in Daytona Beach, Florida, seats and club additions at Richmond, enhanced seating areas and a new premium recreational vehicle parking area at Michigan and a variety of other improvements and renovations to our facilities.

At August 31, 2007, we have approximately \$111.1 million in capital projects currently approved for our existing facilities. These projects include the acquisition of land and land improvements at various facilities for expansion of parking, camping capacity and other uses, installation of lighting at Chicagoland, improvements at Darlington including a new tunnel, suite renovations and repaving of the racing surface, improvements at California to enhance the fan experience, including installation of escalators to improve fan traffic and mobility, and a variety of other improvements and renovations to our facilities that enable us to effectively compete with other sports venues for consumer and corporate spending.

As a result of these currently approved projects and estimated additional approvals in fiscal 2008 we expect our total fiscal 2007 capital expenditures at our existing facilities will be approximately \$80.0 million to \$90.0 million, depending on the timing of certain projects.

We review the capital expenditure program periodically and modify it as required to meet current business needs.

**Future Liquidity**

*Long-Term Obligations and Commitments*

On April 23, 2004, we completed an offering of \$300.0 million principal amount of unsecured senior notes in a private placement. On September 27, 2004, we completed an offer to exchange the senior notes for registered senior notes with substantially identical terms ( 2004 Senior Notes ). At August 31, 2007, outstanding 2004 Senior Notes totaled approximately \$300.6 million, net of unamortized discounts and premium, which is comprised of \$150.0 million principal amount unsecured senior notes, which bear interest at 4.2 percent and are due April 2009, and \$150.0 million principal amount unsecured senior notes, which bear interest at 5.4 percent and are due April 2011. The 2004 Senior Notes require semi-annual interest payments on April 15 and October 15 through their maturity. The 2004 Senior Notes may be redeemed in whole or in part, at our option, at any time or from time to time at redemption prices as defined in the indenture. Our wholly-owned domestic subsidiaries are guarantors of the 2004 Senior Notes.

In connection with our February 2, 2007, acquisition of the 62.5 percent ownership interest in Raceway Associates we did not previously own, we assumed approximately \$39.7 million in third party debt, consisting of three bank term loans and two revenue bonds payable. The first bank term loan ( Chicagoland Term Loan ) was a construction loan for the development of Chicagoland with principal outstanding at the date of acquisition of approximately \$28.4 million. We paid the remaining principal and accrued interest on the Chicagoland Term Loan subsequent to the acquisition in February 2007. The second bank term loan ( 4.9 percent Bank Loan ) consists of a construction and mortgage note with principal outstanding at the date of acquisition of approximately \$3.3 million original 20 year term due June 2018, with a current interest rate of 4.9 percent and a monthly payment of \$48,000 principal and interest. The interest rate and monthly payments will be adjusted on June 1, 2008, and 2013. At August 31, 2007, outstanding principal

34

on the 4.9 percent Bank Loan was approximately \$3.1 million. The third bank term loan ( 6.3 percent mortgage note with principal outstanding at the date of acquisition of approximately \$271,000, original five year term due February 2008, with a fixed interest rate of 6.3 percent and a monthly payment of \$25,000 principal and interest. At August 31, 2007, outstanding principal on the 6.3 percent Bank Loan was approximately \$128,000. The first revenue bonds payable ( 5.8 percent Revenue Bonds ) consist of economic development revenue bonds issued by the City of Joliet, Illinois to finance certain land improvements with principal outstanding at the date of acquisition of approximately \$2.5 million. The 5.8 percent Revenue Bonds have an initial interest rate of 5.8 percent and a monthly payment of \$29,000 principal and interest. The interest rate will be adjusted on June 1, 2008 and will continue until maturity in June 2018. At August 31, 2007, outstanding principal on the 5.8 percent Revenue Bonds was approximately \$2.4 million. The second revenue bonds payable ( 6.8 percent Revenue Bonds ) are special service area revenue bonds issued by the City of Joliet, Illinois to finance certain land improvements with principal outstanding at the date of acquisition of approximately \$5.2 million. The 6.8 percent Revenue Bonds are billed and paid as a special assessment on real estate taxes. Interest payments are due on a semi-annual basis at 6.8 percent with principal payments due annually. Final maturity of the 6.8 percent Revenue Bonds is January 2012. At August 31, 2007, outstanding principal on the 6.8 percent Revenue Bonds was approximately \$4.7 million.

In January 1999, the Unified Government of Wyandotte County/Kansas City, Kansas ( Unified

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Government ), issued approximately \$71.3 million in taxable special obligation revenue ( TIF ) bonds in connection with the financing of construction of Kansas Speedway. At August 31, 2007, outstanding TIF bonds totaled approximately \$67.3 million, net of the unamortized discount, which is comprised of a \$18.7 million principal amount, 6.2 percent term bond due December 1, 2017 and \$49.7 million principal amount, 6.8 percent term bond due December 1, 2027. The TIF bonds are repaid by the Unified Government with payments made in lieu of property taxes ( Funding Commitment ) by our wholly-owned subsidiary, Kansas Speedway Corporation. Principal (mandatory redemption) payments per the Funding Commitment are payable by Kansas Speedway Corporation on October 1 of each year. The semi-annual interest component of the Funding Commitment is payable on April 1 and October 1 of each year. Kansas Speedway Corporation granted a mortgage and security interest in the Kansas project for its Funding Commitment obligation.

In October 2002, the Unified Government issued subordinate sales tax special obligation revenue bonds ( 2002 STAR Bonds ) totaling approximately \$6.3 million to reimburse us for certain construction already completed on the second phase of the Kansas Speedway project and to fund certain additional construction. The 2002 STAR Bonds, which require annual debt service payments and are due December 1, 2022, will be retired with state and local taxes generated within the Kansas Speedway s boundaries and are not our obligation. Kansas Speedway Corporation has agreed to guarantee the payment of principal, any required premium and interest on the 2002 STAR Bonds. At August 31, 2007, the Unified Government had approximately \$3.8 million in 2002 STAR Bonds outstanding. Under a keepwell agreement, we have agreed to provide financial assistance to Kansas Speedway Corporation, if necessary, to support its guarantee of the 2002 STAR Bonds.

On June 16, 2006, we entered into a \$300.0 million revolving credit facility ( 2006 Credit Facility ). The 2006 Credit Facility allows us to increase the credit facility to a total of \$500 million, subject to certain conditions. The 2006 Credit Facility is scheduled to mature in June 2011, and accrues interest at LIBOR plus 30.0-80.0 basis points, based on the our highest debt rating as determined by specified rating agencies. At August 31, 2007, we did not have any borrowings outstanding under the 2007 Credit Facility.

We have guaranteed minimum royalty payments under certain agreements through December 2015, with remaining maximum exposure at August 31, 2007, of approximately \$12.5 million.

### **Speedway Developments**

In light of NASCAR s publicly announced position regarding additional potential realignment of the NASCAR NEXTEL Cup Series schedule, we also believe there are potential development opportunities in other new, underserved markets across the country. As such, we have been and are exploring opportunities for public/private partnerships targeted to develop one or more motorsports entertainment facilities in new markets, including Denver, Colorado, the Northwest US and the New York Metropolitan area.

35

*Denver Speedway Development*

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In February 2007, we announced that we are exploring the possibility of pursuing a public-private partnership to develop a national-level motorsports entertainment facility in the Denver metropolitan region.

Through a wholly-owned subsidiary, we are evaluating a number of land parcels, and look forward to working with public entities to explore the feasibility of a jointly funded motorsports entertainment facility that could accommodate approximately 75,000 fans and bring considerable economic impact to the area.

The project is in a very early phase and we do not have a pre-determined timetable for concluding our potential site evaluation or determining a specific course of action concerning the pursuit of a public-private partnership to fund the project.

### *Northwest US Speedway Development*

In June 2005, we announced we had secured an option to purchase approximately 950 acres for the development of a motorsports entertainment facility in Kitsap County, Washington, approximately 20 miles outside of Seattle, Washington, the country's 14th largest media market. State legislation was required to create a Public Speedway Authority and authorize the issuance of bonds to help finance the project. In early February 2007, the necessary legislation was introduced into both the Washington State House of Representatives and Senate in hopes of successfully completing this stage of the process. On April 2, 2007, we announced that despite agreeing to substantial changes to the legislation, it became apparent that additional modifications would be proposed to the bill. Due to the increased risk that the collective modifications would have a significant negative impact on the project's financial model, we felt it was in our best long-term interest to discontinue our efforts at the Kitsap County site. As a result, we have terminated our land option and recorded a non-cash pre-tax charge in the fiscal 2007 second quarter of approximately \$5.9 million, or \$0.07 per diluted share after-tax, to reflect the write-off of certain capitalized costs including legal consulting, capitalized interest and other project-specific costs. The charge is included in Impairment of Long-lived Assets in our consolidated statements of operations for the nine months ended August 31, 2007. We still believe the Pacific Northwest represents an attractive long-term opportunity, and remain interested in a motorsports entertainment facility development project in the region.

### *New York Metropolitan Speedway Development*

During fiscal 1999, we announced our intention to search for a site for a major motorsports entertainment facility in the New York metropolitan area. Our efforts included the evaluation of many different locations. Most recently, we identified a combination of land parcels in the New York City borough of Staten Island aggregating approximately 676 acres that we targeted for the development of a major motorsports entertainment and retail development project. Our then majority-owned subsidiary, 380 Development, purchased the total 676 acres for approximately \$110.5 million in early fiscal 2005.

In December 2006, we announced our decision to discontinue pursuit of a speedway development on Staten Island. The decision was driven by a variety of factors, including: (1) the inability to secure the critical local political support that is necessary to secure the required land-use change approvals for a speedway development; (2) even if we had secured the necessary political support, it became apparent that we would have been faced with unacceptable approval requirements including operational restrictions that would have made the facility difficult to operate and a significant challenge to market; and (3) the increased risk that these unacceptable approval requirements could result in higher construction spending and annual operating costs, which would have a significant negative impact on the financial model for the speedway development.

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Our operating and development agreements with The Related Companies have been terminated, the note payable to us from Related which was secured by a pledge of Related's 12.4 percent proportionate minority interest in 380 Development has been cancelled and the minority interest surrendered to us.

The decision to discontinue our speedway development efforts on Staten Island resulted in a non-cash, pre-tax charge in our fiscal 2006 fourth quarter results of approximately \$84.7 million or \$1.01 per diluted share after-tax. Accounting rules generally accepted in the US require that the property be valued at its then

36

current fair value, which was estimated by an independent appraisal at approximately \$65.0 million. Prior to the write-off, we had capitalized spending of approximately \$150.0 million through November 30, 2006, including: (1) \$123.0 million for land and related improvements, (2) \$11.0 million for costs related solely to the development of the speedway, and (3) \$16.0 million for capitalized interest and property taxes. The value of the property is expected to be in excess of \$100.0 million once it is filled and ready for sale. As previously discussed, we ceased fill operations while we address certain issues the DEC and DOS raised, including the presence of, and potential need to remediate, fill containing constituents above regulatory thresholds. In May 2007 we entered into a Consent Order with DEC to resolve the issues surrounding these fill operations and the prior placement of fill at the site that contained constituents above regulatory thresholds. The Consent Order requires us to remove non-compliant fill pursuant to the comprehensive fill removal plan. We commenced fill removal activities in September 2007, and we expect the fill removal to be complete in three to four months. The Consent Order also required us to pay a penalty to DEC of \$562,500, half of which was paid in May 2007 and the other half of which has been suspended so long as we comply with the terms of the Consent Order. Included in Impairment of Long-lived Assets in our consolidated statements of operations for the three and nine months ended August 31, 2007, is our estimated total costs, including the portion of the penalty which has been paid, attributable to the expected fill removal process of approximately \$108,000 and \$3.0 million, respectively, or \$0.00 and \$0.04 per diluted share after-tax, respectively. The costs associated with the fill removal process will be paid within the next several months as fill is removed. We continue to evaluate the existence of other responsible parties and potential recoveries from such parties, if any. We expect to resume fill operations within the next several months after complying with the Consent Order and once other appropriate regulatory approvals are obtained. As previously discussed, we recently entered into negotiations with a third party for the sale of the 676-acre Staten Island property.

Although we are disappointed that our speedway development efforts were unsuccessful on Staten Island, we remain committed to pursuing the development of a motorsports entertainment facility in the region. Due to the considerable interest in and support for NASCAR racing in the metro New York market, we believe a premier motorsports entertainment facility will have a significant positive impact on the area's economy and prove to be a long-term community asset.

### *Daytona Live! Development*

In May 2007, we announced we had entered into a 50/50 joint venture (the Joint Venture) with The

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Cordish Company ( Cordish ), one of the largest and most respected developers in the country, to explore a potential mixed-use entertainment destination development to be named Daytona Live!, on 71 acres we currently own. Located directly across International Speedway Boulevard (U.S. Highway 92) from our Daytona motorsports entertainment facility, the acreage currently includes several office buildings that house our corporate headquarters and certain related operations of ours, NASCAR and Grand American. Preliminary conceptual designs call for a 200,000 square foot mixed-use retail/dining/entertainment area as well as a 2,500-seat movie theater, a residential component and a 160-room hotel. In addition, the initial redevelopment could also include approximately 200,000 feet of office space to house the headquarters of ISC, NASCAR, Grand American and their related businesses, and additional space for other tenants. Final design plans are expected to be completed by the end of 2007 and will incorporate the results of local market studies and further project analysis. The Joint Venture is hopeful to receive all necessary permitting and other approvals in the next twelve months. The current estimated cost for the initial redevelopment is approximately \$250 million. Both ISC and Cordish will contribute an equal amount of equity to the joint venture. We expect our contribution to range between \$15 million and \$20 million in cash, as well as land currently owned. The remainder of the project will be primarily privately financed by the Joint Venture. However, specific financing considerations for the Joint Venture are dependent on several factors including lease arrangements and availability of public incentives. Lastly, if the Joint Venture proceeds with the project, it is expected that several of our existing offices and other buildings, which were not fully depreciated, will be razed during the next three to 21 months. This resulted in the recognition of non-cash charges relating to additional depreciation of approximately \$6.9 million and \$11.6 million, or \$0.08 and \$0.13 per diluted share, during the three and nine months ended August 31, 2007, respectively. We expect to recognize approximately \$0.5 million, or \$0.01 per diluted share, of additional depreciation during our fourth quarter of fiscal 2007.

37

### *Internal Revenue Service Examination*

The Service is currently performing a periodic examination of our federal income tax returns for the years ended November 30, 1999 through 2005 and has challenged the tax depreciation treatment of a significant portion of our motorsports entertainment facility assets. Through August 31, 2007, we have received reports from the Service requesting downward adjustments to our tax depreciation expense for the fiscal years ended November 30, 1999 through 2005, which could potentially result in the reclassification of approximately \$101.1 million of income taxes from deferred to current. Including related interest, the combined after-tax cash flow impact of these requested adjustments is approximately \$117.9 million. In order to prevent incurring additional interest related to fiscal 2005 and prior, we have approximately \$117.9 million on deposit with the Service as of August 31, 2007, which is classified as long-term assets in our consolidated financial statements. Our deposits are not a payment of tax, and we will receive accrued interest on any of these funds ultimately returned to us. Including related interest, we estimate the combined after-tax cash flow impact of future additional federal tax adjustments expected for fiscal 2006, and related state tax revisions and interest for all periods, to range between \$30.0 million and \$40.0 million at August 31, 2007. In June 2007 the Service commenced the administrative appeals process which is expected to take six to fifteen months to complete. If our appeal is not resolved satisfactorily, we will evaluate all of our options, including litigation. We believe that our application of the federal income tax regulations in question, which have been applied consistently since their enactment and have been subjected to previous IRS audits, is appropriate, and we intend to vigorously defend the merits of our position. In accordance with SFAS No. 109 Accounting for Income Taxes, we have accrued a deferred tax liability based on the differences between our financial reporting and tax bases of such assets in our consolidated balance sheet as of August 31, 2007. While an adverse



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resolution of these matters could result in a material negative impact on cash flow, including payment of taxes from amounts currently on deposit with the Service, we believe that we have provided adequate reserves related to these matters including interest charges through August 31, 2007 totaling approximately \$13.4 million, and, as a result, does not expect that such an outcome would have a material adverse effect on results of operations. It is important to note the Federal American Jobs Creation Act of 2004 legislation, which was effective on October 23, 2004, provides owners of motorsports entertainment facility assets a seven-year recovery period for tax depreciation purposes. The motorsports provision applies prospectively from the date of enactment through January 1, 2008. We and others in the industry are pursuing an extension of this seven-year prospective tax depreciation provision.

### **Future Cash Flows**

Our cash flow from operations consists primarily of ticket, hospitality, merchandise, catering and concession sales and contracted revenues arising from television broadcast rights and marketing partnerships. We believe that cash flows from operations, along with existing cash, cash equivalents, short-term investments and available borrowings under our 2006 Credit Facility, will be sufficient to fund:

operations and approved capital projects at existing facilities for the foreseeable future;

payments required in connection with the funding of the Unified Government's debt service requirements related to the TIF bonds;

payments related to our existing debt service commitments;

payments for share repurchases under our Stock Purchase Plan;

any potential payments associated with our keepwell agreements;

any equity contributions in connection with the Daytona Live! development;

any payment of tax that may ultimately occur as a result of the examination by the Service; and

the fees and expenses incurred in connection with the current legal proceeding discussed in Part II Legal Proceedings.

We intend to pursue further development and/or acquisition opportunities (including the possible development of new motorsports entertainment facilities, such as the New York metropolitan area, the

38

Northwest US, Denver and other areas), the timing, size and success, as well as associated potential capital commitments, of which are unknown at this time. Accordingly, a material acceleration of our growth strategy could require us to obtain additional capital through debt and/or equity financings. Although there can be no assurance, we believe that adequate debt and equity financing will be available on satisfactory terms.

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While we expect our strong operating cash flow to continue in the future, our financial results depend significantly on a number of factors relating to consumer and corporate spending, including economic conditions affecting marketing dollars available from the motorsports industry's principal sponsors. Consumer and corporate spending could be adversely affected by economic, security and other lifestyle conditions resulting in lower than expected future operating cash flows. General economic conditions were significantly and negatively impacted by the September 11, 2001 terrorist attacks and the war in Iraq and could be similarly affected by any future attacks or fear of such attacks, or by conditions resulting from other acts or prospects of war. Any future attacks or war or related threats could also increase our expenses related to insurance, security or other related matters. Also, our financial results could be adversely impacted by a widespread outbreak of a severe epidemiological crisis. The items discussed above could have a singular or compounded material adverse effect on our financial success and future cash flow.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

During the nine months ended August 31, 2007, there have been no material changes in our market risk exposures.

### **ITEM 4. DISCLOSURE CONTROLS AND PROCEDURES**

Subsequent to August 31, 2007, and prior to the filing of this report, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision of and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures, subject to limitations as noted below, were effective at August 31, 2007, and during the period prior to the filing of this report.

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure control procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we are a party to routine litigation incidental to our business. We do not believe that the resolution of any or all of such litigation will have a material adverse effect on our financial condition or results of operations.

In addition to such routine litigation incidental to its business, we are a party to the legal proceeding described below.

Current Litigation

In July 2005, Kentucky Speedway, LLC filed a civil action in the Eastern District of Kentucky against NASCAR and us alleging that NASCAR and ISC have acted, and continue to act, individually and in combination and collusion with each other and other companies that control motorsports entertainment facilities hosting NASCAR NEXTEL Cup Series, to illegally restrict the award of ... NASCAR NEXTEL Cup Series [races]. The complaint was recently amended to seek, in addition to damages, an injunction requiring NASCAR to develop objective factors for the award of NEXTEL Cup races, divestiture of ISC and NASCAR so that the France Family and anyone else does not share ownership of both companies or serve as officers or directors of both companies, ISC's divestiture of at least 8 of its 12 racetracks that currently operate a NEXTEL Cup race and prohibiting further alleged violations of the antitrust laws. Curiously, the complaint does not ask the court to cause NASCAR to award a NEXTEL Cup race to the Kentucky Speedway. Other than some vaguely conclusory allegations, the complaint fails to specify any specific unlawful conduct by us. Pre-trial discovery in the case was recently concluded and based upon all of the evidentiary materials adduced we believe even more strongly than before that the case is without legal or factual merit. At this point the likelihood of a materially adverse result appears to be remote, although there is always an element of uncertainty in litigation. It is premature to attempt to quantify the potential magnitude of a remotely possible adverse decision, although we intend to continue to defend ourselves vigorously while maintaining potential claims and remedies available to us to recover the damages caused by the filing of the suit. At a status conference in late May 2007 the Court modified the timeline for the case to extend the time periods for the conclusion of submission of summary judgment materials until September 24, 2007 and to tentatively set the date for a trial (if needed) of up to five weeks beginning in March 2008. The fees and expenses associated with the defense of this suit are not covered by insurance and could adversely impact our financial condition or results of operations and cash flows, even if we prevail. Further, the time devoted to this matter by management and the possible impact of litigation on business negotiations occurring prior to resolution of this matter could also adversely impact our financial condition or results of operations and cash flows. Finally, even if the direct effect of the resolution of this case does not result in a material adverse impact on us, it is remotely possible that the resolution of this case could result in industry wide changes in the way race schedules are determined by sanctioning bodies, which could indirectly have a material adverse impact on us.

**ITEM 1A. RISK FACTORS**

This report and the documents incorporated by reference may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify a forward-looking statement by our use of the words anticipate, estimate, expect, may, believe, objective, projection, forecast, goal, and similar expressions. These forward-looking statements include our

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statements regarding the timing of future events, our anticipated future operations and our anticipated future financial position and cash requirements. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we do not know whether our expectations will prove correct. We previously disclosed in response to Item 1A to Part I of our report on Form 10-K for the fiscal year ended November 30, 2006 the important factors that could cause our actual results to differ from our expectations. Except as set forth below there have been no material changes to those risk factors.

### ***Our success depends on the availability and performance of key personnel***

Following the death of our Chairman, William C. France, on June 4, 2007, our continued success depends more than ever upon the availability and performance of the remainder of our senior management team,

40

including James C. France, Lesa France Kennedy and John R. Saunders. Each of these individuals possesses unique and extensive industry knowledge and experience. While we believe that our senior management team has significant depth, the additional loss of any of the individuals mentioned above, or our inability to retain and attract key employees in the future, could have a negative effect on our operations and business plans.

### ***We are subject to changing governmental regulations and legal standards that could increase our expenses***

With the exception of issues concerning the fill operations on Staten Island raised by the New York State Department of Environmental Conservation ( DEC ) and the New York City Department of Sanitation ( DOS ), including the presence of, and need to remediate, fill containing constituents above permitted regulatory thresholds, we believe that our operations are in material compliance with all applicable federal, state and local environmental, land use and other laws and regulations. In May 2007, we entered into a Consent Order with DEC to resolve several issues surrounding these fill operations and the acceptance of fill at the site that did not comply with certain regulatory standards. The Consent Order requires us to remove non-compliant fill pursuant to the comprehensive fill removal plan. We commenced fill removal activities in September 2007, a cost of \$562,500, half of which was paid in May 2007 and the other half of which has been suspended so long as we determine that damage to persons or property or contamination of the environment has been caused or exacerbated by the operation or conduct of our business or by pollutants, substances, contaminants or wastes used, generated or disposed of by us, or if pollutants, substances, contaminants or wastes are found on property currently or previously owned or operated by us, we may be held liable for such damage and may be required to pay the cost of investigation and/or remediation of such contamination or any related damage. The amount of such liability as to which we are self-insured could be material. State and local laws relating to the protection of the environment also can include noise abatement laws that may be applicable to our racing events. Our existing facilities continue to be used in situations where the standards for new facilities to comply with certain laws and regulations, including the