CHURCHILL DOWNS

INCORPORATED

Notice of Annual Meeting of Shareholders
2014 Proxy Statement
2013 Annual Report on Form 10-K

"Your Company achieved record revenues of $779 million in 2013 and record Adjusted EBITDA of $176 million...We continued to add to our growth portfolio throughout the year."

Dear Shareholder,

The value of your common stock investment in Churchill Downs Incorporated (NASDAQ symbol CHDN) increased 35% in 2013 following a 27% increase in 2012, a 20% increase in 2011, and a 16% increase in 2010 (all on a Dec. 31 to Dec. 31 basis). In addition, we were able to increase the Company's annual dividend from $0.72 to $0.87 per share in 2013, the third consecutive annual increase of at least 20%.

Your Company achieved record revenues of $779 million in 2013 and record Adjusted EBITDA of $176 million. Additional information regarding the Company's financial performance can be found in the Form 10-K section of this annual report.

We continued to add to our growth portfolio throughout the year.

In May, we opened two new seating areas at Churchill Downs Racetrack, The Mansion and the Plaza Balcony, in time for the 139th Kentucky Oaks and Kentucky Derby, contributing to our fourth consecutive Adjusted EBITDA record for these iconic events. In July, we acquired the Oxford Casino in Oxford, Maine (www.oxfordcasino.com), for $169 million and completed a $3 million gaming floor expansion by year-end.

In December, we opened our new 1,600 slot gaming and racing facility, Miami Valley Gaming & Racing, LLC, just north of Cincinnati (www.miamivalleygaming.com), investing approximately $132 million in our 50% ownership share of this exciting new joint venture with Delaware North Gaming & Entertainment.

At year-end we had two other projects underway at Churchill Downs Racetrack that will be completed in time for the 140th Kentucky Oaks and Kentucky Derby; the Grandstand Terrace & Rooftop Garden project will add 2,400 new seats; and the "Big Board" project will bring a 15,224-square-foot video board to Churchill Downs, the largest 4K-resolution video board in the world.

Finally, in December, we completed an offering of $300 million in 5.375% Senior Unsecured Notes that mature in 2021, increasing our debt capacity and flexibility to pursue additional growth opportunities in the future.

Your Board of Directors and the management team thank you for your investment in Churchill Downs Incorporated, and for your trust in our leadership.

Robert L. Evans	G. Watts Humphrey, Jr.
Chairman of the Board & Chief Executive Officer	Lead Independent Director

CHURCHILL DOWNS INCORPORATED
600 N. HURSTBOURNE PARKWAY, STE. 400
LOUISVILLE, KENTUCKY 40222

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 22, 2014

To the Shareholders of
Churchill Downs Incorporated:

Notice is hereby given that the Annual Meeting of Shareholders (the "Annual Meeting") of Churchill Downs Incorporated (the "Company"), a Kentucky corporation, will be held at the Cincinnati Marriott Northeast, located at 9664 S. Mason Montgomery Road, Mason, Ohio 45040, on Tuesday, April 22, 2014, at 9:00 a.m. Eastern Daylight Saving Time, for the following purposes:

I. To elect two (2) Class III Directors for a term of three (3) years (Proposal No. 1);

II. To approve an amendment to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan to increase the number of shares available for issuance thereunder by 1.8 million shares (Proposal No. 2);

III. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2014 (Proposal No. 3);

IV. To conduct an advisory vote on executive compensation (Proposal No. 4); and

V. To transact such other business as may properly come before the meeting or any adjournment thereof, including matters incident to its conduct.

The close of business on February 28, 2014, has been fixed as the record date for determining the shareholders entitled to notice of, and to vote at, the Annual Meeting. Only shareholders of record at that time will be entitled to notice of and to vote at the Annual Meeting and at any adjournments thereof.

Shareholders who do not expect to attend the meeting in person are urged to sign, date and promptly return the Proxy that is enclosed herewith or vote by telephone or over the Internet.

By Order of the Board of Directors.

ALAN K. TSE
Executive Vice President,
General Counsel and Secretary

March 24, 2014

CHURCHILL DOWNS INCORPORATED

600 N. HURSTBOURNE PARKWAY, STE. 400
LOUISVILLE, KENTUCKY 40222

PROXY STATEMENT

Annual Meeting of Shareholders to be held on April 22, 2014

The enclosed Proxy is being solicited by the Board of Directors (the "Board of Directors" or "Board") of Churchill Downs Incorporated to be voted at the 2014 Annual Meeting of Shareholders to be held on Tuesday, April 22, 2014, at 9:00 a.m. Eastern Daylight Saving Time (the "Annual Meeting"), at **the Cincinnati Marriott Northeast, located at 9664 S. Mason Montgomery Road, Mason, Ohio 45040**, and any adjournments thereof. This solicitation is being made primarily by mail and at the expense of the Company. Certain officers and directors of the Company and persons acting under their instruction may also solicit proxies on behalf of the Board of Directors by means of telephone calls, personal interviews and mail at no additional expense to the Company. The Proxy Card and this Proxy Statement are being sent to shareholders on or about March 24, 2014.

Voting Rights

Only holders of record of the Company's Common Stock, no par value ("Common Stock"), on February 28, 2014, are entitled to notice of and to vote at the Annual Meeting. On that date**, 17,944,984** shares of Common Stock were outstanding and entitled to vote. Each shareholder has one vote per share on all matters coming before the Annual Meeting. The shareholders of the Company do not have cumulative voting rights in the election of directors. Under the Company's Amended and Restated Articles of Incorporation and Amended and Restated Bylaws and the applicable provisions of Kentucky law, abstentions and broker non-votes are not counted in determining the number of votes required for the election of a director or passage of any matter submitted to the shareholders. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists.

If the enclosed Proxy is properly executed and returned prior to the Annual Meeting, the shares represented thereby will be voted as specified therein. If a shareholder does not specify otherwise, the shares represented by the shareholder's proxy will be voted: (i) for the election of the nominees listed below under "Election of Directors"; (ii) for approval of the amendment to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan to increase the number of shares available for issuance thereunder by 1.8 million shares; (iii) for the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2014; (iv) for the advisory approval of the compensation of the Company's named executive officers as disclosed in this proxy statement pursuant to the compensation disclosure rules of the SEC; and (v) in the discretion of the person or persons voting the proxies, on such other business as may properly come before the annual meeting or any adjournments thereof.

Voting Instructions and Information

The enclosed proxy is solicited on behalf of the Board of Directors of Churchill Downs Incorporated, a Kentucky corporation ("Company," "CDI," or "CHDN") for use at the Company Annual Meeting of Shareholders to be held on April 22, 2014, or at any adjournment thereof ("Annual Meeting" or "2014 Annual Meeting of Shareholders").

When and where is our Annual Meeting?

We will hold our Annual Meeting on Tuesday, April 22, 2014 at 9:00 a.m., Eastern Daylight Saving Time, at the Cincinnati Marriott Northeast, located at 9664 S. Mason Montgomery Road, Mason, Ohio 45040.

How are we distributing our proxy materials?

We are using the rule of the United States Securities and Exchange Commission (SEC) that allows companies to furnish proxy materials to their shareholders using the "full set delivery" option; however, the Company may elect to use the "notice only" option in the future. A company may use either option, "notice only" or "full set delivery," for all of its shareholders or may use one method for some shareholders and the other method for others. Pursuant to the rules governing the "full set delivery" option, a company may provide proxy materials in paper form and send them via standard United States mail or, if a shareholder has previously elected, may provide the proxy materials in electronic form and send them via e-mail. In addition to delivering materials to shareholders, the Company is obligated to post all proxy materials on a publicly available website and provide information to shareholders about how to access that website.

Accordingly, each shareholder will receive the Company's proxy materials by mail or, if previously agreed to by a shareholder, by e-mail. These proxy materials include the Notice of Annual Meeting of Shareholders, proxy statement, proxy card and Annual Report. These materials are also available at http://www.churchilldownsincorporated.com/proxy.

Who can vote at the Annual Meeting?

You are entitled to vote or direct the voting of your shares of CHDN's Common Stock, if you were a shareholder of record or if you held CHDN Common Stock in "street name" at the close of business on Friday, February 28, 2014 (the "Record Date"). On that date, 17,944,984 shares of CHDN Common Stock were outstanding. Each share of CHDN Common Stock held by you on the Record Date is entitled to one vote.

What do I need to attend, and vote at, the Annual Meeting?

If you plan on attending the Annual Meeting, please remember to bring photo identification with you, such as a driver's license. In addition, if you hold shares in "street name" and would like to attend the Annual Meeting, you must bring an account statement or other acceptable evidence of ownership of CHDN Common Stock as of the close of business on the Record Date. In order to vote at the Annual Meeting if you hold shares in "street name," you will also need a valid "legal proxy," which you can obtain by contacting your account representative at the broker, bank or similar institution through which you hold your shares.

What proposals will be voted on at the Annual Meeting?

Four proposals from the Company will be considered and voted on at the Annual Meeting:

1. To elect two (2) Class III Directors for a term of three (3) years (Proposal No. 1);
2. To approve an amendment to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan to increase the number of shares available for issuance thereunder by 1.8 million shares (Proposal No. 2);

3. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2014 (Proposal No. 3); and
4. To conduct an advisory vote on executive compensation (Proposal No. 4).

You may also vote on any other business as may properly come before the meeting or any adjournment thereof, including matters incident to the meeting's conduct.

How does the Board of Directors recommend I vote?

CDI's Board of Directors unanimously recommends that you vote:

1. "**FOR**" each of the nominees specified under "Nominees for Election as Directors" to the Board of Directors.
2. "**FOR**" the amendment to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan.
3. "**FOR**" the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2014.
4. "**FOR**" the proposal to approve, on a non-binding advisory basis, executive compensation.

How do I vote?

You may cast your vote in one of four ways:

- **By Submitting a Proxy by Internet.** Go to the following website: www.proxyvote.com. You may submit a proxy by Internet 24 hours a day. To be valid, your proxy by Internet must be received by 11:59 p.m., Eastern Daylight Saving Time, on April 21, 2014. Please have your Notice of Internet Availability of Proxy Materials or your proxy card available when you access the website and follow the instructions to create an electronic voting instruction form.
- **By Submitting a Proxy by Telephone.** To submit a proxy using the telephone, call 1-800-690-6903 any time on a touch-tone telephone. There is NO CHARGE to you for the call in the United States or Canada. International calling charges apply outside the United States and Canada. You may submit a proxy by telephone 24 hours a day, 7 days a week. Follow the simple prompts and instructions provided by the recorded message. To be valid, your proxy by telephone must be received by 11:59 p.m. Eastern Daylight Saving Time, on April 21, 2014.
- **By Submitting a Proxy by Mail.** Mark your proxy card, sign and date it, and return it in the prepaid envelope that has been provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. To be valid, your proxy by mail must be received by 7:00 a.m., Eastern Daylight Saving Time, on April 22, 2014.
- **At the Annual Meeting.** You can vote your shares in person at the Annual Meeting (see "What do I need to attend, and vote at, the Annual Meeting?"). If you are a shareholder of record, in order to vote at the Annual Meeting, you must present an acceptable form of photo identification, such as a driver's license. If you hold your shares in street name, you must obtain a legal proxy, as described above under "What do I need to attend, and vote at, the Annual Meeting?", and bring that proxy to the Annual Meeting.

How can I revoke my proxy or substitute a new proxy or change my vote?

You can revoke your proxy or substitute a new proxy by use of any of the following means:

For a Proxy Submitted by Internet or Telephone

- By submitting in a timely manner a new proxy through the Internet or by telephone that is received by 11:59 p.m., Eastern Daylight Saving Time, on April 21, 2014; or

- Executing and mailing a later-dated proxy card that is received prior to 7:00 a.m., Eastern Daylight Saving Time, on April 22, 2014; or
- By voting in person at the Annual Meeting.

For a Proxy Submitted by Mail

- Executing and mailing another proxy card bearing a later date that is received prior to 7:00 a.m., Eastern Daylight Saving Time, on April 22, 2014; or
- Giving written notice of revocation to CDI's Secretary at 600 N. Hurstbourne Parkway, Ste. 400, Louisville, Kentucky 40222 that is received by CDI prior to 7:00 a.m., Eastern Daylight Saving Time, on April 22, 2014; or
- By voting in person at the Annual Meeting.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information as of February 28, 2014, (except as otherwise indicated below) regarding the beneficial ownership of the Common Stock by the only persons known by the Company to beneficially own more than five percent (5%) of the Common Stock, each director of the Company, each named executive officer (as defined in "Executive Compensation-Summary Compensation Table" herein), and the Company's directors and executive officers as a group. Except as otherwise indicated, the persons named in the table have sole voting and investment power with respect to all of the shares of Common Stock shown as beneficially owned by them. The percentage of beneficial ownership is calculated based on **17,944,984** shares of Common Stock outstanding as of February 28, 2014. We are not aware of any pledge of our Common Stock or any other arrangements the operation of which may at a subsequent date result in a change in control of our Company. The Company's Insider Trading Policy requires that directors, officers or other employees of the Company must obtain pre-clearance from the Company's General Counsel at least two (2) weeks prior to the proposed execution of documents evidencing the pledge of any shares of the Company's Common Stock.

Name of Beneficial Owner	Amount and Nature Of Beneficial Ownership	Percent of Class
The Duchossois Group, Inc. (f/k/a Duchossois Industries, Inc.) 845 Larch Avenue Elmhurst, IL 60126	2,944,756	16.41
PAR Capital Management, Inc. 1 International Place, #2401 Boston, MA 02110	1,286,544	7.17
GAMCO Investors, Inc. and affiliates One Corporate Center Rye, NY 10580-1435	1,268,224(1)	7.07
Wellington Management Co. LLP 280 Congress Street Boston, Massachusetts 02210	1,072,686	5.98
Ulysses L. Bridgeman, Jr.	-0-(2)	*
Leonard S. Coleman, Jr.	-0-	*
Craig J. Duchossois	3,099,543(3)	17.27
Richard L. Duchossois	3,200,270(4)	17.83
Robert L. Fealy	-0-(5)	*
Daniel P. Harrington	233,299(6)	1.30
G. Watts Humphrey, Jr.	51,000	0.28
James F. McDonald	2,011(7)	*
R. Alex Rankin	5,587	*
Darrell R. Wells	140,000	0.78
William C. Carstanjen	102,701(8)	0.57
Robert L. Evans	387,962(9)	2.16
James E. Gay	46,728(10)	0.26
William E. Mudd	87,801(11)	0.49
Alan K. Tse	22,487(12)	0.13
15 Directors and Executive Officers as a Group	4,297,492(13)	23.95

* Less than 0.1%

(1) GAMCO, and its collective subsidiaries and affiliates, owns beneficial interest of 7.05%. The percent of class reflected in the above table includes a 5.09% interest held by GAMCO Asset Management, Inc., a 1.54% interest held by Gabelli Funds LLC, a 0.41% interest held by Teton Advisors, Inc., and a 0.01% interest held by Mario J. Gabelli. All are related entities.

(2) As of February 28, 2014, Mr. Bridgeman had 261 deferred shares under the Plan.

(3) Mr. Craig J. Duchossois is the son of Mr. Richard L. Duchossois, who is also a director of the Company. Craig J. Duchossois shares voting and investment power with respect to 2,944,756 shares owned by The Duchossois Group, Inc. (formerly known as Duchossois Industries, Inc.) and 137,141 shares owned by 845 Larch Acquisition Corp., LLC, an affiliate of The Duchossois Group, Inc. Mr. Craig J. Duchossois also shares voting and investment power with respect to 17,646 shares owned by three trusts. He specifically disclaims beneficial ownership of these shares. Of the shares listed as beneficially owned by Mr. Craig J. Duchossois, 3,081,897 shares are also listed as beneficially owned by Mr. Richard L. Duchossois. In addition, also see Note (2) on page 16.

(4) Mr. Richard L. Duchossois is the father of Mr. Craig J. Duchossois, who is also a director of the Company. Mr. Richard L. Duchossois shares voting and investment power with respect to 2,944,756 shares owned by The Duchossois Group, Inc. (formerly known as Duchossois Industries, Inc.) and 137,141 shares owned by 845 Larch Acquisition Corp., LLC, an affiliate of The Duchossois Group, Inc. Mr. Richard L. Duchossois also shares voting and investment power with respect to 118,373 shares owned by the RLD Revocable Trust. He specifically disclaims beneficial ownership of these shares. Of the shares listed as beneficially owned by Mr. Richard L. Duchossois, 3,081,897 shares are also listed as beneficially owned by Mr. Craig J. Duchossois. See also Note (2) on page 16.

(5) See Note (2) on page 16 for deferred shares awarded to Mr. Fealy. As of February 28, 2014, Mr. Fealy has elected to defer shares awarded by the Company for his board service.

(6) Mr. Harrington shares voting and investment power with respect to 233,299 shares held by TVI Corp. He specifically disclaims beneficial ownership of these shares. See Note (2) on page 16.

(7) See Note (2) on page 16.

(8) Excludes 9,209 restricted shares awarded under the Company's Long Term Incentive Plan (2007 Omnibus Plan) over which Mr. Carstanjen has neither voting nor dispositive power until the lapse of the applicable two and three-year restriction periods, in which such shares vest quarterly in equal installments, pursuant to the restricted stock agreements governing these awards. Excludes 15,000 restricted shares awarded pursuant to Mr. Carstanjen's employment agreement over which Mr. Carstanjen has neither voting nor dispositive power until the lapse of the three-year restriction period ending March 31, 2014. Excludes 25,000 restricted shares awarded under the Company's New Long Term Incentive Program (2007 Omnibus Plan) over which Mr. Carstanjen has neither voting nor dispositive power until December 31, 2015, at which time 12,500 shares shall vest without restriction, and December 31, 2016 at which time the remaining 12,500 shall vest without restriction.

(9) Includes 65,000 vested restricted stock units and 180,000 currently exercisable options, but excludes 42,656 restricted shares awarded pursuant to Mr. Evans' employment agreement over which Mr. Evans has neither voting nor dispositive power until the lapse of certain restrictions pursuant to the restricted stock agreements governing the awards.

(10) Excludes 4,232 restricted shares awarded under the Company's Long Term Incentive Plan (2007 Omnibus Plan) over which Mr. Gay has neither voting nor dispositive power until the lapse of the applicable two and three-year restriction period, in which shares vest quarterly in equal installments, pursuant to the restricted stock agreements governing these awards. Excludes 12,000 restricted shares awarded under the Company's New Long Term Incentive Program (2007 Omnibus Plan) over which Mr. Gay has neither voting nor dispositive power until December 31, 2015, at which time 6,000 shares shall vest without restriction, and December 31, 2016 at which time the remaining 6,000 shall vest without restriction.

(11) Includes 4,500 shares issuable under currently exercisable options, and 7,053 restricted shares awarded under the Company's Long Term Incentive Plan (2007 Omnibus Plan) over which Mr. Mudd has neither voting nor dispositive power until the lapse of applicable two and three-year restriction periods, in which such shares vest quarterly in equal installments, pursuant to the restricted stock agreements governing these

awards. Excludes 15,000 restricted shares awarded pursuant to Mr. Mudd's employment agreement over which Mr. Mudd has neither voting nor dispositive power until the lapse of a restriction period ending on March 31, 2015. Excludes 20,000 restricted shares awarded under the Company's New Long Term Incentive Program (2007 Omnibus Plan) over which Mr. Mudd has neither voting nor dispositive power until December 31, 2015, at which time 10,000 shares shall vest without restriction, and December 31, 2016 at which time the remaining 10,000 shall vest without restriction.

(12) Excludes 1,410 restricted shares awarded under the Company's Long Term Incentive Plan (2007 Omnibus Plan) over which Mr. Tse has neither voting nor dispositive power until the lapse of the two and three-year restriction periods. Excludes 7,500 restricted shares awarded under the Company's New Long Term Incentive Program (2007 Omnibus Plan) over which Mr. Tse has neither voting nor dispositive power until December 31, 2014 at which time 2,500 shall vest without restriction, December 31, 2015 at which time 2,500 shall vest without restriction, and December 31, 2016 at which time the remaining 2,500 shares will vest without restriction.

(13) See table on page 16 and "Executive Officers of the Company"

Executive Officers of the Company

The Company's executive officers, as listed below, are elected annually to their executive offices and serve at the pleasure of the Board of Directors.

Name and Age	Position(s) With Company and Term of Office
Robert L. Evans(1) 61	Chairman and Chief Executive Officer since June 2011; Chief Executive Officer from March 2011 to June 2011; President and Chief Executive Officer from August 2006 to March 2011
William C. Carstanjen(2) 46	President and Chief Operating Officer since March 2011; Chief Operating Officer from January 2009 to March 2011; Executive Vice President and Chief Development Officer from June 2005 to January 2009; General Counsel from June 2005 to December 2006
James E. Gay(3) 40	President, Churchill Downs Interactive since October 2012; Senior Vice President and Chief Strategy Officer from March 2012 to October 2012; Senior Vice President of Strategy and Business Development from January 2009 to March 2012; Vice President of Business Development from June 2006 to January 2009; Director of Business Development from March 2003 to June 2006
William E. Mudd(4) 42	Executive Vice President and Chief Financial Officer since October 2007
Alan K. Tse(5) 42	Executive Vice President and General Counsel since March 2011

(1) Prior to joining the Company, Mr. Evans served as the Managing Director of Symphony Technology Group, a strategic software holding group focused on the enterprise software and services market, and as President and CEO of Symphony Services Corp., a product engineering outsourcing services company, from 2002 to 2004. From 1999 to 2000, he served as President and Chief Operating Officer of i2 Technologies/Aspect Development.

(2) Prior to joining the Company, Mr. Carstanjen was employed at General Electric Company. From 2004 through June 2005, he served as the Managing Director and General Counsel of GE Commercial Finance, Energy Financial Services. From 2002 to 2004, he served as General Counsel of GE Specialty Materials and, from 2000 to 2002, he served as Transactions and Finance Counsel of GE Worldwide Headquarters.

(3) Mr. Gay has served the Company in various capacities since 2003. Prior to joining the Company, Mr. Gay was employed at the Stanford Investment Group, an investment management firm catering to high net worth individuals. From 1997 to 2001, he held several positions with SunTrust Bank, including positions in SunTrust's loan syndications and investment banking groups.

(4) Prior to joining the Company, Mr. Mudd was employed at General Electric Company. From 2006 through October 2007, he served as Chief Financial Officer, Global Commercial & Americas P&L of GE Infrastructure, Water & Process Technologies. From 2004 to 2006, he served as Chief Financial Officer, Supply Chain, Information Technology and Technology Finance, GE Consumer & Industrial Europe, Middle East, & Africa, Budapest and Hungary and, from 2002 to 2004, he served as Manager, Global Financial Planning & Analysis and Business Development.

(5) Prior to joining the Company, Mr. Tse was employed at LG Electronics Mobilecomm U.S.A., Inc., a leading cellular telephone manufacturer in the United States, where from January 2005 through March 2011, he served as Vice President and General Counsel.

Election of Directors
(Proposal No. 1)

At the Annual Meeting, shareholders will vote to elect two (2) persons to serve in Class III of the Board of Directors and to hold office for a term of three (3) years expiring at the 2017 Annual Meeting of Shareholders and thereafter until their respective successors shall be duly elected and qualified or until the earlier of their resignation, death or removal.

The Amended and Restated Bylaws of the Company provide that the Board of Directors shall be composed of not fewer than three (3) nor more than fifteen (15) members, the exact number to be established by the Board of Directors, and further provide for the division of the Board of Directors into three (3) approximately equal classes, of which one (1) class is elected annually to a three year term. Currently the Board of Directors is comprised of eleven (11) directors, with four (4) directors in Class I, four (4) directors in Class II and three (3) directors in Class III. The Company has a mandatory retirement age policy with regard to directors, which provides that a person is not qualified to serve as a director unless he or she is less than seventy (70) years of age on the date of election. However, the Board believes that it is important to monitor overall Board performance and suitability, and pursuant to the policy, upon the recommendation of the Nominating and Governance Committee, the Board may waive the effective date of mandatory retirement. There is one director in Class III that will have met the mandatory retirement age at the Annual Meeting, Darrell R. Wells. The Nominating and Governance Committee expects to fill the vacant Board seat created by Mr. Wells' retirement in the near future.

Prior to the consideration of a waiver of the effective date of the mandatory retirement age for Mr. Wells, Mr. Wells expressed to the Board of Directors his desire not to be considered for such waiver. The Board accepted Mr. Wells' decision not to be considered for a waiver of the effective date of the mandatory retirement age on February 20, 2014. After twenty-nine (29) years of exceptional leadership as a director of the Company, Mr. Wells will become an Emeritus Director (see "*Emeritus Directors*" section below on pages 15-16) at the expiration of his current term as a director. Please also see the *Board Leadership Structure* section below on page 18.

The Company is a party to a Merger Agreement dated as of June 23, 2000, as amended (the "Merger Agreement"), between the Company and Duchossois Industries, Inc. (currently known as The Duchossois Group, Inc.), under which certain subsidiaries of the Company were merged into certain wholly-owned subsidiaries of Duchossois Industries, Inc. (the "Merger"). The Merger was approved by vote of the Company's shareholders at a Special Meeting of the shareholders on September 8, 2000. Pursuant to a Stockholder's Agreement between the Company and Duchossois Industries, Inc., as part of the Merger, Duchossois Industries, Inc. designated three (3) individuals for appointment and election to the Board of Directors. The Stockholder's Agreement provides that those individuals, Mr. Richard L. Duchossois, Mr. Craig J. Duchossois and Mr. Robert L. Fealy (or substitute designees reasonably acceptable to the Company), would be nominated to serve as directors of the Company, being allocated as equally as possible among the three classes of directors, for vote of the shareholders of the Company at the annual meeting of shareholders at which each respective class is then submitted for vote by the shareholders. In 2000, the Board of Directors of the Company appointed Mr. Craig J. Duchossois to serve as a member of Class I, Mr. Richard L. Duchossois to serve as a member of Class II and Mr. Robert L. Fealy to serve as a member of Class III. Mr. Craig J. Duchossois, Mr. Richard L. Duchossois and Mr. Robert L. Fealy have each been subsequently re-elected to the Board of Directors.

At the Annual Meeting, the two (2) persons named in the following table will be nominated on behalf of the Board of Directors for election as directors in Class III. The Nominating and Governance Committee has recommended, and the Board has approved, the nomination of these persons. The nominees currently serve as members of Class III and have agreed to serve if re-elected. With each shareholder having one vote per share to cast for each director position, the nominees receiving the greatest number of votes will be elected. The biographical information for our directors below includes information regarding certain of the experiences, qualifications, attributes and skills that led to the determination that such individuals are qualified to serve on the Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF THE FOLLOWING CLASS III DIRECTORS.

UNLESS OTHERWISE INSTRUCTED, IT IS THE INTENTION OF THE PERSONS NAMED IN THE PROXY TO VOTE THE SHARES REPRESENTED THEREBY "FOR" THE ELECTION OF THE CLASS III DIRECTORS NAMED BELOW.

Nominees for Election as Directors

The following table sets forth information relating to the Class III directors of the Company who are proposed to the shareholders for election to serve as directors until the expiration of their terms of office.

Name, Age and Positions with Company	Principal Occupation[(1)] and Certain Directorships[(2)]
	Class III—Terms Expiring in 2014
Robert L. Fealy 62 Director since 2000	Mr. Fealy serves as the President, Chief Operating Officer and Director of The Duchossois Group, Inc. (a family owned company with diversified business interests in companies with leading brands in the residential security, lighting and convenience products markets and the commercial control, automation and digital media markets). While Mr. Fealy was originally nominated to serve as a Director of the Company pursuant to the stockholder's agreement between the Company and Duchossois Industries, Inc. (as described above), the Company has been and will continue to be well served by Mr. Fealy's experience as a certified public accountant and senior executive with oversight of a diverse group of companies that has over 6,000 employees worldwide with operations located in over 30 countries as well as proven capabilities in strategic business planning in a variety of industries. Mr. Fealy currently holds the following leadership positions with other entities: Director, The Duchossois Group, Inc.; Director, The Chamberlain Group, Inc.; Chairman and Director, AMX LLC; Director, Milestone AV Technologies LLC; Managing Director, Duchossois Technology Partners, LLC; Lead Director and Chairman of the Audit Committee, Pella Corporation; Founding Board Member and Vice Chairman, Illinois Venture Capital Association; Director, Illinois Venture Capital Association PAC; Chairman and Director, Brivo Systems, Inc.; Chairman, Chicago Ventures and member of the Investment Committee of the Illinois Innovation Accelerator Fund; Chairman of the Board of Trustees, University of Cincinnati Foundation; Member, University of Cincinnati Business Advisory Council; Member, Advisory Board of the Polsky Center for Entrepreneurship and Innovation at the University of Chicago Booth School; Director, Chicago Children's Choir; Director, The Morton Arboretum.
Daniel P. Harrington 58 Director since 1998	Mr. Harrington serves as the President and Chief Executive Officer of HTV Industries, Inc. (private holding company with diversified business interests that include telecommunications, manufacturing distribution and banking). Among other exceptional personal and professional attributes, Mr. Harrington has extensive financial, accounting and chief executive experience within a variety of industries that qualifies Mr. Harrington as a member of the Board of Directors. In addition, Mr. Harrington qualifies as an Audit Committee Financial Expert, which makes him well suited for his current role as the Chairman of the Company's Audit Committee. Mr. Harrington also serves in the following leadership positions of other entities: Director, First Guaranty Bank; Trustee, The Veale Foundation. In addition, Mr. Harrington has served as a Director of First State Financial Corporation, Portec Rail Products, Inc. (and on the Audit and Compensation Committees) and Biopure Corporation (and on the Audit Committee).

(1) Except as otherwise indicated, there has been no change in principal occupation or employment during the past five years.

(2) Directorships at any time within the last 5 years in companies with a class of securities registered pursuant to Section 12 of the Exchange Act, subject to the requirements of Section 15(d) of the Exchange Act or companies registered under the Investment Company Act of 1940 and, in the case of certain directors, other directorships or positions considered significant by them.

The Board of Directors has no reason to believe that the nominees will be unavailable to serve as a director. If any nominee should become unavailable before the Annual Meeting, the persons named in the enclosed Proxy, or their substitutes, reserve the right to vote for substitute nominees selected by the Board of Directors.

Continuing Directors

The following tables set forth information relating to the Class I and Class II directors of the Company who will continue to serve as directors until the expiration of their respective terms of office.

Name, Age and Positions with Company	Principal Occupation(1) and Certain Directorships(2)
	Class I—Terms Expiring in 2015
Leonard S. Coleman, Jr. 65 Director since 2001	Mr. Coleman has served in multiple senior leadership positions in the major professional sports industry, including: Senior Advisor, Major League Baseball from 1999 to 2005; President, National League of Professional Baseball Clubs from 1994 to 1999. Among other exceptional personal and professional attributes, Mr. Coleman provides a unique perspective and is well suited to serve on the Board of the Company because of his experience as a senior executive in the major professional sports industry and as a director of large publicly traded companies in a variety of industries. Mr. Coleman currently holds the following leadership positions with other entities: Director, The Omnicom Group; Director, Electronic Arts, Inc.; Director, Avis-Budget Group, Inc.; and Director, Aramark Corporation; Chairman, The Jackie Robinson Foundation; Director, Spoleto Festival, Metropolitan Opera, The Schuman Fund and Urban America; Former Chairman, ARENACO, Inc. (subsidiary of New York Yankees/New Jersey Nets).
Craig J. Duchossois 69 Director since 2000	Mr. Duchossois serves as the Chief Executive Officer and a Director of The Duchossois Group, Inc., (a family-owned company with diversified business interests in companies with leading brands in the residential security, lighting and convenience products markets and the commercial control, automation and digital media markets). While Mr. Duchossois was originally nominated to serve as a Director of the Company pursuant to the stockholder's agreement between the Company and Duchossois Industries, Inc. (as described above), the Company has been and will continue to be well served by Mr. Duchossois' experience and proven capabilities in the international marketplace and technology industries in overseeing a diverse group of companies that have over 6,000 employees worldwide with operations located in over 30 countries, as well as his financial and business acumen. Mr. Duchossois currently holds the following leadership positions with other entities: Chairman, The Chamberlain Group, Inc.; Director, AMX LLC; Chief Executive Officer, TCMC, Inc.; Director, Amsted Industries, Inc.; not-for-profit board memberships include Culver Education Foundation, Illinois Institute of Technology, University of Chicago, Kellogg Graduate School of Management, World Business Chicago, the University of Chicago Hospitals, Executive's Club of Chicago, Economic Club, Chicago Council on Global Affairs and the Marine Corps Scholarship Foundation. He is a member of the Chief Executive Officer's Organization, World Presidents Organization, and the Civic Committee of the Commercial Club of Chicago. Mr. Duchossois also serves as an advisory board member for Levy Acquisition Corp., Frontenac Company and The Edgewater Funds. He is past-Chairman of the Board of Visitors for the United States Naval Academy.

Name, Age and Positions with Company	Principal Occupation[(1)] and Certain Directorships[(2)]
Robert L. Evans 61 Director since 2006	Mr. Evans is the Chairman of the Board and Chief Executive Officer of the Company. Please see Mr. Evans' positions with the Company, terms of office and other biographical information on page 8. Mr. Evans' role as the Chairman and Chief Executive Officer of the Company as well as his proven entrepreneurial experience and abilities, his experience in senior executive positions at some of North America's leading manufacturing (Mr. Evans served in a variety of management positions for Caterpillar Inc.), business consulting (former Managing Partner of the Americas Supply Chain Practice for the $28 billion Accenture Ltd., formerly Andersen Consulting), technology (former President and Chief Operating Officer of Aspect Development Inc.) and private equity companies (Co-Founder and former Managing Director of Symphony Technology Group, a private equity firm that provides investment capital and strategic direction to software and services companies), and his experience in the thoroughbred horse racing industry qualify Mr. Evans to serve as a Director of the Company. Mr. Evans currently holds the following leadership positions with other entities: President, Tenlane Farm, LLC (a thoroughbred breeding and racing operation); Mr. Evans is a former director of IronPlanet, ATC Technology Corp., Symphony Services, and Trigo Technologies Inc.
G. Watts Humphrey, Jr. 69 Director since 1995	Mr. Humphrey is the President, GWH Holdings, Inc. (private investment company); Chairman, IPEG (international plastics machinery equipment company) and Centria (manufacturer and erector of metal building systems); and Owner, Shawnee Farm (thoroughbred breeding and racing operation). Among other exceptional personal and professional attributes, Mr. Humphrey has extensive experience in overseeing a diverse group of companies as well as in significant leadership roles throughout the thoroughbred horseracing industry that qualify Mr. Humphrey to serve as a member of the Board of Directors. Mr. Humphrey currently holds the following leadership positions with other entities: Member of The Jockey Club; Vice-Chairman, Blood-Horse Publications; Director, Keeneland; a Member of Executive Committee of Keeneland Assoc.; Member of the Board of Trustees, Breeders' Cup, Ltd.; Vice-Chairman, Shaker Village of Pleasant Hill; Director, Smithfield Trust Company; Director, Wausau Paper; Member of the Board of Trustees, Centre College. Previously, Mr. Humphrey served as Chairman of the Federal Reserve Bank—Fourth District.

(1) There has been no change in principal occupation or employment during the past five years, except with respect to Mr. Evans (as described under "Executive Officers of the Company").

(2) Directorships at any time within the last 5 years in companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), subject to the requirements of Section 15(d) of the Exchange Act or companies registered under the Investment Company Act of 1940 and, in the case of certain directors, other directorships or positions considered significant by them.

Name, Age and Positions with Company	Principal Occupation[1] and Certain Directorships[2]
	Class II—Terms Expiring in 2016
Ulysses L. Bridgeman, Jr. 60 Director since 2012	Mr. Bridgeman is the owner and President of Manna, Inc. and ERJ Dining, LLC which currently oversee the administration and operation of 124 Chili's Restaurants in ten states, and 235 Wendy's Old Fashioned Hamburger Restaurants in seven states. The restaurants presently employ approximately 20,000 employees. According to the Restaurant Finance Monitor, Mr. Bridgeman is the second largest restaurant Franchisee in the United States. His educational background includes a Bachelor of Arts in Psychology from the University of Louisville in 1975. From 1975-1983 and from 1986-1987, Mr. Bridgeman played professional basketball with the Milwaukee Bucks. During the interim of 1983-1986 he played for the Los Angeles Clippers. During his professional basketball career, Mr. Bridgeman worked as a Sales and Public Relations Representative for Howard Johnson in Milwaukee. His experience also includes holding a position as an analyst with Towers, Perrin, Foster & Crosby Insurance Consultants in Milwaukee. Mr. Bridgeman's leadership skills were further developed through his eleven years with the NBA Players Association. As a Player Representative, he acted as a liaison between the players and management. He was directly involved in arbitration proceedings and also assisted with the implementation of special programs such as Career Alternatives, Fitness and Wellness and Financial Planning. During his time with the Players Association, he held the title of Treasurer for three years and President for four years. Mr Bridgeman's experience in leading a large and diverse workforce, along with his entrepreneurial vision and director experience make him an excellent member of the Company Board. Mr. Bridgeman is actively involved in the Louisville community. He currently serves on the Board of Directors of Fifth Third Bank; the West End School; the PGA Foundation Board; the Naismith Basketball Hall of Fame; and most recently joined the Meijer Board. He serves as Past Chairman of the Board of Trustees University of Louisville and a past member of the Library Board.
Richard L. Duchossois 92 Director since 2000	Mr. Duchossois is the founder and serves as the Chairman of The Duchossois Group, Inc. (a family-owned company with diversified business interests in companies with leading brands in the residential security, lighting and convenience products markets and the commercial control, automation and digital media markets). Mr. Duchossois also serves as the Chairman of Arlington Park Racecourse, LLC, a subsidiary of the Company. While Mr. Duchossois was originally nominated to serve as a director of the Company pursuant to the stockholder's agreement between the Company and Duchossois Industries, Inc. (as described above), the Company has been and will continue to be well served by Mr. Duchossois' entrepreneurial experience and abilities, his proven leadership capabilities in successfully developing and managing a diverse group of companies that have over 6,000 employees worldwide with operations located in over 30 countries, as well as his horse racing industry experience in which he led the resurrection of Arlington Park Racecourse as a world renowned racetrack. Mr. Duchossois currently holds the following leadership positions with other entities: Director, The Chamberlain Group, Inc.; Director, TCMC, Inc.

Name, Age and Positions with Company	Principal Occupation[(1)] and Certain Directorships[(2)]
James F. McDonald 74 Director since 2008	Mr. McDonald is an investor, partner, and founder of a number of private businesses which include construction aggregates, real estate investment partnerships, and livestock operations. From April 30, 2011 to December 31, 2011, Mr. McDonald served as a consultant to Cisco Systems, Inc. (“Cisco”). From 2006 to April 30, 2011, Mr. McDonald was a Senior Vice President of Cisco (a world leader in networking that provides hardware, software, and service offerings that are used to create Internet solutions that allow individuals, companies, and countries to increase productivity, improve customer satisfaction and strengthen competitive advantage.) From 1993 to 2006, Mr. McDonald served as the Chairman, Chief Executive Officer and President of Scientific-Atlanta, Inc. (a global provider of cable and internet protocol television set-tops, data and voice cable modems, end-to-end video distribution networks, and video systems integration services, which was acquired by Cisco Systems, Inc. in February 2006). Among other exceptional personal and professional attributes, Mr. McDonald’s experience as the chief executive or a senior executive of leading global technology companies and as a director of large publicly traded companies in a variety of industries qualify Mr. McDonald to serve on the Board of the Company. Mr. McDonald has held the following leadership positions with other entities: Director, Burlington Resources, Inc. from 1988 to 2006, Director, Mirant Corporation from 2001 to 2006, Director, National Data Corporation and NDCHealth Corporation from 2000 to 2006, Director, Scientific-Atlanta, Inc. from 1993 to 2006. Mr. McDonald is also a former Director of Sprint (now Sprint Nextel Corporation).
R. Alex Rankin 58 Director since 2008	Mr. Rankin is the President of Sterling G. Thompson Co. (a private insurance agency and broker), the President of Upson Downs Farm, Inc. (a thoroughbred breeding and racing operation), the Chairman of the James Graham Brown Foundation (a private, non-profit foundation that fosters the well-being, quality of life, and image of Louisville and Kentucky by actively supporting and funding projects in the fields of civic affairs, economic development, education, and health and general welfare, which since 1954 has awarded over 2,680 grants totaling over $450 million). Among other exceptional personal and professional attributes, Mr. Rankin’s expertise in the areas of finance and risk management, as well as his experience in the Company’s core business of thoroughbred horseracing qualify Mr. Rankin as a member of the Board of Directors and the Audit Committee.

(1) Except as noted with respect to Mr. McDonald, there has been no change in principal occupation or employment during the past five years.

(2) Directorships at any time within the last 5 years in companies with a class of securities registered pursuant to Section 12 of the Exchange Act, subject to the requirements of Section 15(d) of the Exchange Act or companies registered under the Investment Company Act of 1940 and, in the case of certain nominees, other directorships or positions considered significant by them.

Emeritus Directors

Emeritus Directors are available for counsel, but do not attend meetings of the Board of Directors and do not vote on matters presented to the Board. The Company’s Amended and Restated Bylaws provide that a person shall not be qualified for election as a Director due to age pursuant to any mandatory retirement age requirement adopted by the Company. The Company’s Corporate Governance Guidelines provide that the Board will establish and maintain a policy with regard to a mandatory retirement age for non-employee directors. The current policy provides that a person is not qualified to serve as a director unless he or she is less than seventy (70) years of age on the date of election. However, the Board believes that it is important to monitor overall Board performance and suitability and, upon the recommendation of the Nominating and Governance

Committee, the Board may waive the effective date of mandatory retirement. Each director shall become a Director Emeritus upon the expiration of his or her current term following the date on which he or she is no longer qualified for election due to age, provided the effective date of such mandatory retirement has not been waived. The Emeriti Directors are Charles W. Bidwill, Jr., Catesby W. Clay, J. David Grissom, Thomas H. Meeker, and Carl F. Pollard. As of the Annual Meeting, on April 22, 2014, we will have one newly retired Emeritus Director, Darrell R. Wells.

Director Compensation for Fiscal Year Ended December 31, 2013

During 2013, directors received an annual retainer fee of $35,000; directors who served as committee chairmen of the Compensation Committee and the Nominating and Governance Committee received an additional $5,000 for a total annual retainer fee of $40,000; the director who served as committee chairman of the Audit Committee received an additional $10,000 for a total annual retainer fee of $45,000. Directors were paid $1,500 for each meeting of the Board of Directors and $1,000 for each committee meeting they attended, either in person or by teleconference, and for each special ad hoc meeting in which they participated. Finally, each director received a grant of restricted share units, with an aggregate grant date fair value of $25,000. Directors who did not reside in Louisville may request reimbursement for their travel expenses. Only non-employee directors receive this compensation.

In 2013, we provided the following annual compensation to our non-employee directors:

Name	Fees earned or paid in cash ($)	Stock Awards ($)[3]	Total ($)
Ulysses L. Bridgeman, Jr.	54,250[1][2]	32,328[1]	86,578
Leonard S. Coleman, Jr.	54,000	25,000	79,000
Craig J. Duchossois	47,000[2]	25,000	72,000
Richard L. Duchossois	46,000	25,000	71,000
Robert L. Fealy	45,000[2]	25,000	70,000
Daniel P. Harrington	58,000[2]	25,000	83,000
G. Watts Humphrey, Jr.	53,000	25,000	78,000
James F. McDonald	48,000[2]	25,000	73,000
R. Alex Rankin	56,000	25,000	81,000
Darrell R. Wells	51,000	25,000	76,000

(1) Ulysses L. Bridgeman, Jr. was appointed to the Board of Directors on September 14, 2012. The Company elected to pay Mr. Bridgeman a pro-rated annual cash retainer for 2012 after his election at the 2013 Annual Meeting. After his election, Mr. Bridgeman received meeting fees of $3,000, a pro-rated annual cash retainer of $8,750 and a pro-rated grant of restricted stock with a value of $7,328 for his Board service during 2012.

(2) The Churchill Downs Incorporated 2005 Deferred Compensation Plan allows directors to defer receipt of all or part of their retainer and meeting fees in a deferred share account until after their service on the Board has ended. This account allows the director, in effect, to invest his or her deferred cash compensation in Company Common Stock. Funds in this account are credited as hypothetical shares of Common Stock based on the market price of the stock at the time the compensation would otherwise have been earned. Hypothetical dividends are reinvested in additional shares based on the market price of the stock on the date dividends are paid. All shares in the deferred share accounts are hypothetical and are not issued or transferred until the director ends his or her service on the Board. Upon the end of Board service, the shares are issued or transferred to the director. In 2013, Craig Duchossois, Mr. Fealy, Mr. Harrington and Mr. McDonald deferred all of their 2013 directors' fees into a deferred share account under the plan. Mr. Bridgeman deferred 50% of his 2013 directors' fees and 50% of his 2012 directors' fees that were awarded in 2013 into a deferred share account under the plan. As of December 31, 2013, Mr. Fealy had 8,131 deferred shares, Mr. Craig Duchossois had 8,663 deferred shares, Mr. Richard Duchossois had 2,501 deferred shares, Mr. Harrington had 6,449 deferred shares, Mr. McDonald had 4,872 deferred shares and Mr. Bridgeman had 261 deferred shares under the plan.

(3) On April 23, 2013, each director, with the exception of Mr. Evans, received a grant of restricted stock units, valued in the amount of $25,000, calculated based upon the closing price of a share of Common Stock on the date of grant. The restricted stock units vest one year from the date of grant. At the time a director ceases being a director of the Company, the Company will issue one share of Common Stock for each vested restricted stock unit held by such director. As of December 31, 2013, each director, excluding Mr. Evans and Mr. Bridgeman, has received an aggregate total of 2,174 shares, which were granted for board service. Mr. Bridgeman has received an aggregate total of 447 shares.

Corporate Governance

The Board of Directors is responsible for providing effective governance over the Company's affairs. The Company's corporate governance practices are designed to align the interests of the Board and management with those of our shareholders and to promote honesty and integrity throughout the Company.

During the past year, we continued to review our corporate governance policies and practices and compare them to those suggested by various authorities in corporate governance and the practices of other public companies. We have also reviewed guidance and interpretations provided by the Securities and Exchange Commission and NASDAQ.

Copies of the current charter, as approved by our Board, for each of our Audit, Compensation and Nominating and Governance Committees and a copy of our Corporate Governance Guidelines, Code of Conduct for Employees and Code of Ethics for Principal Financial Officers (along with any amendments or waivers related to the Code of Conduct or Code of Ethics) are available on our corporate website, http://www.churchilldownsincorporated.com under the "Investors" heading.

Shareholders may send communications to the Company's Board of Directors addressed to the Board of Directors c/o Churchill Downs Incorporated, 600 N. Hurstbourne Parkway, Ste. 400, Louisville, Kentucky 40222. Any correspondence addressed to the Board of Directors in care of the Company is forwarded to the Board of Directors without review by management.

Board Leadership Structure

On June 16, 2011, the Company's Chief Executive Officer, Robert L. Evans, assumed the combined roles of Chairman of the Board of Directors and Chief Executive Officer. While the Board believes that many factors influence the decision of whether the Chairman of the Board of Directors and Chief Executive Officer positions should be separate or combined and that these factors must be re-evaluated as the needs of the Company evolve, currently the Board of Directors believes that combining such roles is an efficient and effective leadership structure. In addition, the combined roles create a firm link between the Company's management and its Board of Directors, and foster clear accountability, effective decision making and alignment on corporate strategy. To assure effective independent oversight, the Board has adopted a number of governance practices, including: a lead independent director (see below for a description of the lead independent director role), executive sessions of the independent directors after each Board meeting and annual performance evaluations of the Chairman and Chief Executive Officer by the independent directors.

No less frequently than once every two years the Board will appoint a lead director from among its independent directors. On February 26, 2013, G. Watts Humphrey, Jr. was re-appointed as the lead independent director. The lead independent director's authority and responsibilities include: (i) presiding over all meetings of the Board at which the Chairman is not present, including the executive sessions of the independent directors, (ii) serving as liaison between the Chairman and the independent directors, (iii) approving meeting agendas, schedules and information sent to the Board, (iv) the ability to call meetings of the independent directors, and (v) ex officio status on each committee of the Board that the lead independent director is not already a voting member.

Oversight of Company Risk

As part of its responsibility to oversee the management, business and strategy of the Company, the Board of Directors has overall responsibility for risk oversight. While the Board of Directors as a whole performs certain risk oversight functions directly, such as its ongoing review, approval and monitoring of the Company's fundamental business and financial strategies and major corporate actions, the majority of the Board of Directors' risk oversight functions are carried out through the operation of its committees. Each committee oversees risk management within its assigned areas of responsibility, as described below in the discussion of committee responsibilities. The Audit Committee is primarily responsible for overseeing the Company's risk assessment and risk management practices, as well as its compliance programs. The Compensation Committee's responsibilities include oversight of the risks associated with the Company's compensation policies and practices, as well as its managerial development and succession plans. The Nominating and Governance Committee oversees the risks related to the Company's corporate governance structure and processes.

Share Ownership Guidelines

The Board expects all directors to display confidence in the Company by ownership of a meaningful amount of the Company's stock. As a result, each director is expected to own shares of the Company's stock with a fair market value equal to five (5) times the director's annual retainer. Each director who was serving as such on the date of adoption of the ownership guidelines (March 15, 2007) will have five (5) years from such date to meet this requirement and each director appointed or elected since such date will have five (5) years from the date of appointment or election to the Board to meet this requirement. Initial compliance was measured in March 2012, the five (5) year anniversary date of the adoption of the ownership guidelines (for directors in office on March 15, 2007) or at the five (5) year anniversary date of the director's appointment or election (for new directors). Each director's continuing compliance with the ownership guidelines will be measured in the year he or she stands for re-election and will be considered as one of the criteria for nomination by the Nominating and Governance Committee. Deferred shares acquired by directors under the Churchill Downs Incorporated 2005 Deferred Compensation Plan and restricted stock units granted as director compensation may be included for purposes of measuring compliance with the Company's share ownership guidelines.

Board Meetings and Committees

Six (6) meetings of the Board of Directors were held during the last fiscal year. All directors attended at least seventy-five percent (75%) of the aggregate number of meetings of the Board of Directors and the meetings of the committee(s) on which they served in 2013. The Company encourages its directors to attend the Annual Meeting each year. Ten of our eleven directors attended the Company's Annual Meeting on April 24, 2013.

The Board has determined that all of the directors of the Company are "independent directors," as defined under NASDAQ Rule 5605(a)(2), except Robert L. Evans.

As required by the Company's Corporate Governance Guidelines, the Board of Directors currently has four (4) standing committees: the Executive, Audit, Compensation and the Nominating and Governance Committees. No Director Emeritus serves on any Board committee.

The structure of the committees is illustrated in the table below with the number of meetings held in 2013:

Director Name	Board of Directors	Executive Committee	Audit Committee	Compensation Committee	Nominating and Governance Committee
Ulysses L. Bridgeman	✓				✓
Leonard S. Coleman, Jr.	✓		✓	Chairman	
Craig J. Duchossois	✓			✓	
Richard L. Duchossois	✓				✓
Robert L. Evans©	Chairman				
Robert L. Fealy	✓	✓			
Daniel P. Harrington	✓		Chairman	✓	
G. Watts Humphrey, Jr.★	Lead Director	Chairman	★	★	★
James F. McDonald	✓			✓	
R. Alex Rankin	✓	✓	✓		Chairman
Darrell R. Wells	✓		✓	✓	
Number of meetings in 2013	**6**	**0**	**4**	**3**	**2**

✓ = Member

© = Chairman of the Board

★ = Mr. Humphrey serves as lead independent director, and is an ex-officio, non-voting member (Audit, Compensation, and Nominating and Governance Committees).

Executive Committee

The Executive Committee is authorized, subject to certain limitations set forth in the Company's Amended and Restated Bylaws, to exercise the authority of the Board of Directors between Board meetings. The members of the Executive Committee are G. Watts Humphrey, Jr., who serves as Chairman, Robert L. Fealy, and R. Alex Rankin. The Executive Committee does not meet on a regular basis, but instead meets as and when needed.

The Executive Committee did not meet during the last fiscal year.

Audit Committee

The primary purposes of the Audit Committee are to assist the Board of Directors in fulfilling its responsibility in monitoring management's conduct of the Company's financial reporting process and overseeing the Company's risk assessment and risk management practices. Under its charter, the Audit Committee is generally responsible for monitoring the integrity of the financial reporting process, systems of internal controls and financial statements and other financial reports provided by the Company to any governmental or regulatory body, the public or other users thereof, as well as overseeing the processes by which management assesses the Company's exposure to risk and evaluating the guidelines and policies governing the Company's monitoring, control and minimization of such exposures.

The Audit Committee's responsibilities are as follows:

- To monitor the performance of the Company's internal audit function;
- To appoint, compensate, retain and oversee the Company's independent registered public accounting firm employed by the Company for the purpose of preparing or issuing audit opinions on the Company's financial statements and its internal control over financial reporting;
- To monitor the Company's compliance with legal and regulatory requirements as well as the Company's Code of Conduct and Compliance Policies; and

- To inquire of management, including its internal auditor, and the Company's independent auditors regarding significant risks or exposures, including those related to fraudulent activities, facing the Company; to assess the steps management has taken or proposes to take to minimize such risks to the Company; and to periodically review compliance with such steps.
- In discharging its oversight role, to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and to retain outside counsel, auditors or other experts for this purpose.

The officers of the Company responsible for risk assessment and risk management functions report directly to the Audit Committee on a periodic basis, such as the Company's internal auditor presenting its audit plan annually, the Company's chief compliance officer presenting updates on its enterprise risk management program, and on a case by case basis as necessary.

The members of the Audit Committee are Daniel P. Harrington, who serves as Chairman, Leonard S. Coleman, Jr., R. Alex Rankin, and Darrell R. Wells. The Company's Board of Directors has determined that all members of the Company's Audit Committee are independent as defined under NASDAQ Rule 5605(a)(2) and Rule 10A-3(b)(1) of the Securities and Exchange Commission. As of the Annual Meeting, Mr. Wells will no longer serve on the Audit Committee as he will have reached the Company's mandatory retirement age of 70. Mr. Wells' replacement is Leonard S. Coleman, Jr.

Four (4) meetings of the Audit Committee were held during the last fiscal year. The Audit Committee reviews the adequacy of its charter on an annual basis.

The Board of Directors has determined that Daniel P. Harrington, who is independent as defined under NASDAQ Rule 5605(a)(2) and rules promulgated by the Securities and Exchange Commission, is an "audit committee financial expert" as defined by regulations promulgated by the Securities and Exchange Commission.

Compensation Committee

Responsibilities of the Compensation Committee

The Compensation Committee of the Board of Directors operates under a written charter and is comprised entirely of directors meeting the independence requirements of NASDAQ and Rule 10C-1 of the Securities and Exchange Commission. The Board established the Compensation Committee to discharge the Board's responsibilities relating to compensation of the Company's chief executive officer and each of the Company's other executive officers. The Compensation Committee has overall responsibility for decisions relating to all compensation plans, policies and perquisites as they affect the chief executive officer ("CEO") and other executive officers.

During 2013, the Compensation Committee was composed of four (4) independent directors, as defined by the NASDAQ listing standards. Currently the members of the Compensation Committee are Leonard S. Coleman, Jr., who serves as Chairman, Craig J. Duchossois, Daniel P. Harrington, James F. McDonald, and Darrell R. Wells. The Committee has created a special Subcommittee comprised of three Non-Employee Directors for the purposes of approving any stock grants or other stock related transactions to officers or directors of the Company, as required under Rule 16b-3. In addition, this Subcommittee is comprised only of "outside directors" as defined by Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") and is responsible for approving all performance standards for officers for any pay program intended to qualify as "performance based compensation" under this section of the Code. The members of this special Subcommittee are Mr. Coleman, Mr. McDonald, and Mr. Wells. As of the Annual Meeting, the special Subcommittee will be comprised of the following directors: Leonard S. Coleman, Jr., James F. McDonald, and Daniel P. Harrington.

Three (3) meetings of the Compensation Committee were held during the last fiscal year. Members of management attended each meeting. The agenda for each meeting was determined by the Chairman of the Compensation Committee with management's input prior to each meeting.

The Compensation Committee's responsibilities are as follows:

- Oversee the development and implementation of the Company's compensation policies and programs for executive officers, including the CEO.
- Establish the annual goals and objectives relevant to the compensation of the CEO and the executive officers and to present such to the Board annually.
- Evaluate the performance of the CEO and the executive officers in light of the agreed-upon goals and objectives and to determine and approve the compensation level of the CEO, including the balance of the components of total compensation, based on such evaluation and to present its report to the Board annually.
- To develop guidelines for the compensation and performance of the Company's executive officers and to determine and approve the compensation of the Company's executive officers, including the balance of the components of total compensation.
- To establish appropriate performance targets, participations and levels of awards with respect to the Company's incentive compensation plans.
- To administer the Company's equity-based compensation plans, including the establishment of criteria for the granting of stock-based awards and the review and approval of such grants in accordance with the criteria.
- To establish and periodically review company policies relating to senior management perquisites and other non-cash benefits.
- To review periodically the operation of the Company's overall compensation program for key employees and evaluate its effectiveness in promoting shareholder value and company objectives.
- To review the results of any advisory shareholder votes on executive compensation and consider whether to recommend adjustments to the Company's compensation policies and programs taking into account such results.
- To consider, at least annually, whether risks arising from the Company's compensation policies and practices for all employees, including non-executive officers, are reasonably likely to have a material adverse effect on the Company, including whether the Company's incentive compensation arrangements encourage excessive or inappropriate risk-taking.
- To approve any compensation "clawback" policy required by law or otherwise adopted by the Company.
- To oversee regulatory compliance with respect to matters relating to executive officer compensation.
- To approve plans for managerial development and succession within the Company and to present such plans to the Board annually.
- To review, assess and recommend to the Board appropriate compensation for outside directors.
- To produce the report on executive compensation to be included in the Company's proxy statement for the annual meeting of shareholders.
- To review and discuss with management the Compensation Disclosure and Analysis ("CD&A") and, based on such discussion, make a recommendation to the Board as to whether or not the CD&A shall be included in the proxy statement.

- To review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.
- To conduct an annual performance evaluation of the Committee.

The Compensation Committee's charter reflects these responsibilities, and the Compensation Committee and the Board periodically review and revise the charter.

Compensation Committee Interlocks and Insider Participation

None of the directors who served on the Compensation Committee at any time during the last fiscal year were officers of the Company or were former officers of the Company. None of the members who served on the Committee at any time during fiscal 2013 had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K. Finally, no executive officer of the Company serves, or in the past fiscal year has served, as a member of the compensation committee (or other board committee performing equivalent functions) of any entity that has one or more of its executive officers serving on the Committee.

Compensation Risk Assessment

The Committee performed an assessment of whether risks arising from the Company's compensation policies and practices for all employees during 2013, including non-executive officers, are reasonably likely to have a material adverse effect on the Company. The Committee determined that the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company.

Nominating and Governance Committee

The Company's Nominating and Governance Committee operates under a written charter and is responsible for establishing the criteria for and reviewing the effectiveness of the Company's Board of Directors. In addition, the Nominating and Governance Committee provides oversight with regard to the Company's programs for dealing with business ethics and other governance issues.

Pursuant to the Company's Corporate Governance Guidelines and its Policy on Board Composition, the Nominating and Governance Committee determines criteria regarding personal qualifications needed for Board membership and the Committee considers, reviews qualifications and recommends qualified candidates for Board membership. In doing so, the Nominating and Governance Committee reviews the composition of the Board to identify skill sets and qualifications which are represented in order to determine which ones are needed. In addition, the Nominating and Governance Committee reviews the Company's strategic plan to determine its needs with regard to Board composition. While the Company does not have a formal policy on diversity for members of the Board of Directors, the Company's Corporate Governance Guidelines and its Policy on Board Composition specifically provide that diversity of race and gender, as well as general diversity of backgrounds and experience represented on the Board of Directors are factors to consider in evaluating potential directors. The Nominating and Governance Committee sometimes employs an outside consultant to identify nominees with the skill sets, experience and backgrounds that suit the Company's needs.

A candidate for the Company's Board of Directors should possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of the Company's various constituencies. In considering a candidate for nomination as a member of the Board, the Nominating and Governance Committee will consider criteria such as independence; occupational background, including principal occupation (i.e., chief executive officer, attorney, accountant, investment banker, or other pertinent occupation); level and type of business experience (i.e., financial, lending, investment, media, racing industry, technology, etc.); diversity in race and gender; number of boards on which the individual serves; and the general diversity of backgrounds and experience represented on the Board. The Nominating and Governance Committee periodically reviews the Company's Corporate Governance Guidelines and its Policy on Board Composition and recommends changes to the Board. It also evaluates the performance of the Board as a whole and provides feedback to the Board on how the directors, the committees and the Board are functioning. Finally it evaluates Board of Director practices at the Company and other well-managed companies on an annual basis and recommends appropriate changes to the Board and/or its practices.

The Nominating and Governance Committee receives and considers issues raised by shareholders or other stakeholders in the Company and recommends appropriate responses to the Board. The Nominating and Governance Committee will consider recommendations for director candidates submitted by shareholders. Such questions, comments or recommendations should be submitted in writing to the Nominating and Governance Committee in care of the Office of the Secretary at 600 N. Hurstbourne Parkway, Ste. 400, Louisville, Kentucky 40222. The Nominating and Governance Committee, in having adopted criteria to be considered for membership on its Board, considers such candidates applying such criteria and follows the recommendation process noted above. Recommendations by shareholders that are made in accordance with these procedures will receive the same consideration as recommendations from other sources.

The members of the Nominating and Governance Committee, each of whom is independent as defined by the NASDAQ listing standards, are R. Alex Rankin, who serves as Chairman, Ulysses L. Bridgeman, and Richard L. Duchossois.

Two (2) meetings of the Nominating and Governance Committee were held during the last fiscal year.

**Proposal to Approve the Amendment to the
Churchill Downs Incorporated
2007 Omnibus Stock Incentive Plan
(Proposal No. 2)**

Overview

The Board of Directors adopted the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan (the "2007 Plan") on March 15, 2007. On February 25, 2014, upon recommendation of the Compensation Committee, the Board of Directors approved the amendment of the 2007 Plan described in this proposal, subject to shareholder approval. If approved by the stockholders, the amendment will increase, by 1.8 million shares, the number of shares of the Company's Common Stock available for issuance under the 2007 Plan. On February 28, 2014, the closing share price of the Company's Common Stock, as reported on NASDAQ, was $93.00.

The 2007 Plan is the only equity incentive compensation plan under which the Company is granting equity incentive awards, such as stock awards, to directors, officers and other employees. Approximately 13,478 shares remained available for issuance under the 2007 Plan as of February 25, 2014. This remaining amount is insufficient to meet the Company's equity compensation requirements during 2014 and beyond. We estimate that the additional 1.8 million shares will be sufficient to meet our needs for the next three year period.

Why You Should Vote For the 2007 Plan Amendment:

The Board of Directors believes that the 2007 Plan is important to the long-term success of the Company. The purpose of the 2007 Plan is to attract, motivate and retain highly qualified officers, members of the Board who are not employees ("Nonemployee Directors") and key employees. The 2007 Plan is also intended to provide compensation that will be tax deductible by the Company without regard to the limitations of Section 162(m) of the Internal Revenue Code, assuming certain regulatory requirements are satisfied.

The 2007 Plan is administered by the Compensation Committee of the Board of Directors. Awards made to Nonemployee Directors will be approved by the Board. Awards made to the Company's Chairman and Chief Executive Officer will be approved by the Compensation Committee. The 2007 Plan provides the Compensation Committee flexibility to design compensatory awards that are responsive to the Company's needs. Subject to the terms of the 2007 Plan, the Compensation Committee has the discretion to determine the terms of each award. The Committee may delegate to one or more officers of the Company the authority to grant awards to participants who are not directors or executive officers of the Company. The Committee must fix the total number of shares that may be subject to grants made under this delegation.

The Company believes its usage of the 2007 Plan illustrates its commitment to best practices in equity compensation, prudent use of these limited resources and the promotion of a strong alignment with shareholder interests.

The Company manages its use of equity incentive awards carefully and has maintained a reasonable run rate. The Compensation Committee carefully monitors the Company's total dilution, run rate and equity expense to ensure that it maximizes shareholder value and exercises prudence by granting only such number of equity awards as deemed necessary to attract, reward and retain employees. Run rate, a means of measuring annual stock dilution, shows how rapidly a company is deploying its shares reserved for issuance under its equity compensation plans. Run rate is defined as the number of shares subject to equity awards issued in a fiscal year as a percentage of the Company's weighted average shares outstanding. The higher the run rate, the greater the dilution. In the last three fiscal years, the Company's average annual run rate has been 1.8%, or 4.6% on an option equivalent basis (treating restricted shares as if they were granted as stock options and including all performance-based shares on the date of grant), which is higher than the median run rate of other companies of similar size in the same Global Industry Classification Standard ("GICS") industry group (Hotels, Restaurants and Leisure). However, it should be noted that the circumstances increasing the run rate resulted from the implementation of overlapping pay programs during 2013. Specifically, in 2013, the Company both issued the final awards under its prior 2008-2012 long-term incentive plan ("2008-2012 LTIP"), by certifying certain performance goals necessary to award the final two phases of that plan, and awarded new grants of restricted stock under a new multi-year long-term incentive program. Excluding the New Company LTIP performance-based awards, our dilution for the past three (3) years would have been only 1.2% on average, or 3.1% on an option equivalent basis.

The Company's equity "overhang" is substantially lower compared to similar companies. Overhang is an analysis of potential dilution to shareholders from the equity being transferred to employees via equity incentive plans. Overhang is defined as (i) stock awards and option awards outstanding and (ii) shares remaining available for grant as a percentage of the Company's weighted average shares outstanding. As of December 31, 2013, the Company's overhang was approximately 5.1% which is significantly below the median overhang of other companies of similar size in the same GICS industry group (Hotels, Restaurants and Leisure) of 13%. Upon approval of the amendment to the 2007 Plan, the Company's overhang will be 15.5%, which is still lower than such comparable companies as described above.

The amendment of the 2007 Plan will not be effective unless and until approved by shareholders. Participation and the types of awards under the 2007 Plan are subject to the discretion of the Compensation Committee and, as a result, the benefits or amounts that will be received by any participant or groups of participants if the amendment of the 2007 Plan is approved are not currently determinable. Based on its historic compensation practices, the Company expects that a range of 40 to 50 persons annually will receive awards under the 2007 Plan.

Summary Description of the 2007 Plan

A description of the provisions of the 2007 Plan is set forth in question and answer format below.

Who may participate?

Employees of the Company and its subsidiaries and Nonemployee Directors may be selected by the Compensation Committee to receive awards under the 2007 Plan. As of March 24, 2014, approximately 4,300 employees and 10 non-employee directors are eligible to participate in the 2007 Plan.

Are there limits on grants to individual participants or other grant limits?

Yes. No participant may receive awards during any one calendar year representing more than 300,000 shares of Common Stock or more than 7,500,000 performance units (equivalent to $7,500,000). A performance unit is defined in the plan document as a bookkeeping entry that records a unit equivalent to $1.00 awarded pursuant to the plan. If the amendment is approved, in no event will the number of shares of Common Stock issued under the plan upon the exercise of incentive stock options exceed 4,430,000 shares. Stock awards other than stock options will be counted against the maximum number of shares to be issued under the 2007 Plan in a 2-to-1 ratio. These limits are subject to adjustments by the Compensation Committee as provided in the 2007 Plan for stock splits, stock dividends, recapitalizations and other similar transactions or events.

How are shares counted against the plan?

The 2007 Plan provides that the number of shares of Common Stock as to which awards may be granted is 4,430,000 shares ("Maximum Share Limit"). Under the terms of the 2007 Plan, no more than 4,430,000 shares may be used for Options, Stock Appreciation Rights, Restricted Shares, Restricted Share Units, Performance Shares or Performance Units. Each share issued or transferred pursuant to an Award under the 2007 Plan, other than an Option, shall reduce the number of shares available for issuance under the 2007 Plan by 2 shares. If an Award expires or is terminated, cancelled or forfeited, the shares of Common Stock associated with the expired, terminated, cancelled or forfeited Award will again be available for awards under the 2007 Plan. Furthermore, in the case of an Award other than an Option that expires, terminates, is cancelled or is forfeited, the Maximum

Share Limit shall be increased by two shares of Common Stock, up to the full value of the Award for each such Award that is not an Option. In the case of an Option that expires, terminates, is cancelled or is forfeited, the Maximum Share Limit shall be increased by one share of Common Stock. However, the following shares of Common Stock will not become available again for issuance under the 2007 Plan:

- Shares of Common Stock that are tendered by a participant or withheld as full or partial payment of minimum withholding taxes or as payment for the exercise price of an Award; and
- Shares of Common Stock reserved for issuance upon grant of an SAR, to the extent the number of reserved shares of Common Stock exceeds the number of shares of Common Stock actually issued upon exercise or settlement of such SAR.

If cash is issued in lieu of shares of Common Stock pursuant to an award, the shares will not become available for issuance under the Plan.

May options be re-priced without shareholder approval?

Outstanding Options awarded under the 2007 Plan, may not be re-priced, directly or indirectly, without the approval of the shareholders of the Company.

What types of awards may be granted?

Awards under the 2007 Plan may be in the form of stock options, stock appreciation rights, restricted stock, restricted share units, performance shares or performance units.

Upon what terms may options be awarded?

Stock options entitle the optionee to purchase shares of Common Stock at a price equal to or greater than the fair market value on the date of grant. Options may be either incentive stock options or nonqualified stock options, provided that only employees may be granted incentive stock options. The option may specify that the option price is payable (i) in cash, (ii) by the transfer to the Company of unrestricted stock, (iii) with any other legal consideration the Compensation Committee may deem appropriate or (iv) any combination of the foregoing. No stock option may be exercised more than ten (10) years from the date of grant. Each grant may specify a period of continuous employment or service with the Company or any subsidiary that is necessary before the stock option or any portion thereof will become exercisable and may provide for the earlier exercise of the option in the event of a change in control of the Company or similar event.

Upon what terms may stock appreciation rights be granted?

Stock appreciation rights represent the right to receive an amount, determined by the Compensation Committee and expressed as a percentage not exceeding 100%, of the difference between the “base price” established for such rights and the fair market value of the Company’s Common Stock on the date the rights are exercised. The base price must not be less than the fair market value of the Common Stock on the date the right is granted. The grant may specify that the amount payable upon exercise of the stock appreciation right may be paid by the Company (i) in cash, (ii) in shares of the Company’s Common Stock or (iii) any combination of the foregoing. Any grant may specify a waiting period or periods before the stock appreciation rights may become exercisable and permissible dates or periods on or during which the stock appreciation rights shall be exercisable, and may specify that the stock appreciation rights may be exercised only in the event of a change in control of the Company or similar event. The Committee may grant “tandem” stock appreciation awards in connection with an option or “free-standing” stock appreciation awards unrelated to an option. No stock appreciation right may be exercised more than ten (10) years from the date of grant and each grant of a free-standing stock appreciation right must specify the period of continuous employment or service that is necessary before the free-standing stock appreciation right or installments thereof may be exercisable.

Upon what terms may restricted stock be awarded?

An award of restricted stock involves the immediate transfer by the Company to a participant of ownership of a specific number of shares of Common Stock in return for the performance of services. The participant is entitled immediately to voting, dividend and other ownership rights in such shares, subject to the discretion of the Compensation Committee to not include any of such rights during the restriction period. The transfer may be made without additional consideration from the participant. The Committee may specify performance objectives that must be achieved for the restrictions to lapse. Restricted stock must be subject to a "substantial risk of forfeiture" within the meaning of Code Section 83 for a period to be determined by the Committee on the grant date and any grant or sale may provide for the earlier termination of such risk of forfeiture in the event of a change of control of the Company or similar event.

Upon what terms may restricted share units be granted?

An award of restricted share units granted under the 2007 Plan represents the right to receive a specific number of shares at the end of a specified deferral period. Any grant of restricted share units may be further conditioned upon the attainment of performance objectives. The grant may provide for the early termination of the deferral period in the event of a change in control of the Company or similar event. During the deferral period, the participant is not entitled to vote or receive dividends on the shares subject to the award, but the Compensation Committee may provide for the payment of dividend equivalents on a current or deferred basis. The grant of restricted share units may be made without any consideration from the participant other than the performance of future services.

Upon what terms may performance shares and units be granted?

A performance share is the equivalent of one share of Common Stock, and a performance unit is the equivalent of $1.00. Each grant will specify one or more performance objectives to be met within a specified period (the "performance period"), which may be subject to earlier termination in the event of a change in control of the Company or a similar event. If by the end of the performance period the participant has achieved the specified performance objectives, the participant will be deemed to have fully earned the performance shares or performance units. If the participant has not achieved the level of acceptable achievement, the participant may be deemed to have partly earned the performance shares or performance units in accordance with a predetermined formula. To the extent earned, the performance shares or performance units will be paid to the participant at the time and in the manner determined by the Compensation Committee in cash, shares of the Company's Common Stock or any combination thereof.

What are the performance objectives?

The 2007 Plan provides that grants of performance shares, performance units or, when determined by the Compensation Committee, options, restricted share units, restricted stock or other stock-based awards may be made based upon "performance objectives." Performance objectives applicable to awards that are intended to be exempt from the limitations of Code Section 162(m) are limited to specified levels of or increases in the Company's or subsidiary's return on equity, earnings from continuing operations, earnings from continuing operations before interest and taxes, earnings per share from continuing operations before interest, taxes, depreciation and amortization (EBITDA), net earnings per share, diluted earnings per share, total earnings, earnings growth, return on capital, cost of capital, return on assets, return on investment, return on equity, net customer sales, volume sales, sales growth, gross profit, gross margin return on investment, increase in the fair market value of the Company's Common Stock, share price (including but not limited to, growth measures and total shareholder return), operating profit, operating margin, net operating profit after taxes, net earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on investment (which equals net cash flow divided by total capital), total return to shareholders, market share, earnings measures/ratios, economic value added (EVA), asset growth, internal rate of return, increase in net present value or expense targets, "Employer of Choice" or similar survey results, customer satisfaction surveys and productivity. Performance criteria may be measured on an absolute or relative basis. Relative performance may be measured by a group of peer companies or by a financial market index. If the Compensation Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the performance objectives unsuitable, the Committee may modify the performance objectives or the related minimum acceptable level of achievement, in whole or in part, as the Committee deems appropriate and equitable.

What is the maximum amount payable upon attainment of the specified performance-based objectives?

No individual may receive awards representing more than 300,000 shares of Common Stock in any one year. In addition, the maximum number of performance units that may be granted to an individual in any one year is 7,500,000. A performance unit is defined in the plan document as a bookkeeping entry that records a unit equivalent to $1.00 awarded pursuant to the plan.

Are awards made under the plan transferable?

Except as provided below, no award under the 2007 Plan may be transferred by a participant other than by will or the laws of descent and distribution, and stock options and stock appreciation rights may be exercised during the participant's lifetime only by the participant or, in the event of the participant's legal incapacity, the guardian or legal representative acting on behalf of the participant. The Committee may expressly provide in an award agreement (other than an incentive stock option) that the participant may transfer the award to a spouse or lineal descendant, a trust for the exclusive benefit of such family members, a partnership or other entity in which all the beneficial owners are such family members, or any other entity affiliated with the participant that the Committee may approve.

When does the plan terminate?

The 2007 Plan will terminate on the tenth anniversary of the date it was first approved by shareholders, and no award will be granted under the 2007 Plan after that date.

How can the plan be amended?

The 2007 Plan may be amended by the Board of Directors, but without further approval by the shareholders of the Company, no such amendment may increase the limitations set forth in the 2007 Plan on the number of shares that may be issued under the 2007 Plan or any of the limitations on awards to individual participants. The Board may condition any amendment on the approval of the shareholders if such approval is necessary or deemed advisable with respect to the applicable listing or other requirements of a national securities exchange or other applicable laws, policies or regulations.

What are the tax consequences of the 2007 plan?

The following is a brief summary of certain of the federal income tax consequences of certain transactions under the 2007 Plan. This summary is not intended to be exhaustive and does not describe state or local tax consequences.

In general, an optionee will not recognize income at the time a nonqualified stock option is granted. At the time of exercise, the optionee will recognize ordinary income in an amount equal to the difference between the option price paid for the shares and the fair market value of the shares on the date of exercise. At the time of sale of shares acquired pursuant to the exercise of a nonqualified stock option, any appreciation (or depreciation) in the value of the shares after the date of exercise generally will be treated as capital gain (or loss).

An optionee generally will not recognize income upon the grant or exercise of an incentive stock option. If shares issued to an optionee upon the exercise of an incentive stock option are not disposed of in a disqualifying disposition within two years after the date of grant or within one year after the transfer of the shares to the optionee, then upon the sale of the shares any amount realized in excess of the option price generally will be taxed to the optionee as long-term capital gain and any loss sustained will be a long-term capital loss. If shares acquired upon the exercise of an incentive stock option are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to any excess of the fair market value of the shares at the time of exercise (or, if less, the amount realized on the disposition of the shares) over the option price paid for the shares. Any further gain (or loss) realized by the optionee generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period.

Subject to certain exceptions for death or disability, if an optionee exercises an incentive stock option more than three months after termination of employment, the exercise of the option will be taxed as the exercise of a nonqualified stock option. In addition, if an optionee is subject to federal "alternative minimum tax," the exercise of an incentive stock option will be treated essentially the same as a nonqualified stock option for purposes of the alternative minimum tax.

A recipient of restricted stock generally will be subject to taxation at ordinary income rates on the fair market value of the restricted stock (reduced by any amount paid by the recipient) at such time as the shares are no longer subject to a substantial risk of forfeiture or restrictions on transfer for purposes of Code Section 83. However, a recipient who so elects under Code Section 83(b) within thirty days of the date of grant of the restricted stock will recognize ordinary income on the date of grant of the shares equal to the excess of the fair market value of the restricted stock (determined without regard to the risk of forfeiture or restrictions on transfer) over any purchase price paid for the shares. If a Section 83(b) election has not been made, any dividends received with respect to restricted stock that are subject at that time to a substantial risk of forfeiture or restrictions on transfer generally will be treated as compensation that is taxable as ordinary income to the recipient.

A recipient of restricted share units generally will not recognize income until shares are transferred to the recipient at the end of the deferral period and are no longer subject to a substantial risk of forfeiture or restrictions on transfer. At that time, the participant will recognize ordinary income equal to the fair market value of the shares, reduced by any amount paid by the recipient.

A participant generally will not recognize income upon the grant of performance shares or performance units. Upon payment, with respect to performance shares or performance units, the participant generally will recognize as ordinary income an amount equal to the amount of cash received and the fair market value of any unrestricted stock received.

To the extent that a participant recognizes ordinary income in the circumstances described above, the Company or subsidiary for which the participant performs services will be entitled to a corresponding deduction, provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an "excess parachute payment" within the meaning of Code Section 280G and is not disallowed by the $1,000,000 limitation on certain executive compensation under Code Section 162(m).

Awards of restricted share units, performance shares and performance units under the 2007 Plan may, in some cases, result in the deferral of compensation that is subject to the requirements of Code Section 409A. Generally, to the extent that deferrals of these awards fail to meet certain requirements under Code Section 409A, such awards will be subject to immediate taxation and additional taxes in the year they vest.

Where can I get a copy of the plan?

This summary is not a complete description of all provisions of the 2007 Plan. A copy of the 2007 Plan as proposed to be amended is attached hereto as *Exhibit A*.

What is required to approve this proposal?

In order for this proposal to be adopted by the shareholders, at least a majority of the votes cast at the Annual Meeting in person or by proxy by the shareholders entitled to vote on the matter must be voted in its favor.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE "FOR" THE APPROVAL OF THE AMENDMENT OF THE 2007 OMNIBUS STOCK INCENTIVE PLAN TO INCREASE THE SHARES AVAILABLE FOR ISSUANCE UNDER THE PLAN BY 1.8 MILLION SHARES.

UNLESS OTHERWISE INSTRUCTED, IT IS THE INTENTION OF THE PERSONS NAMED IN THE PROXY TO VOTE THE SHARES REPRESENTED THEREBY "FOR" THE PROPOSAL TO APPROVE THE 2007 OMNIBUS STOCK INCENTIVE PLAN.

Proposal to Ratify the Appointment of PricewaterhouseCoopers LLP as the Company's Independent Registered Public Accounting Firm for 2014 (Proposal No. 3)

On February 25, 2014, the Board of Directors, on recommendation from the Audit Committee, selected PricewaterhouseCoopers LLP ("PwC") to serve as the Company's independent registered public accounting firm for the year ending December 31, 2014. PwC has served as the Company's independent registered public accounting firm since the Company's 1990 fiscal year.

Although the Company's Amended and Restated Bylaws do not require that the Company's shareholders ratify the appointment of PwC as the Company's independent registered public accounting firm, the Board of Directors is submitting the appointment of PwC to the Company's shareholders for ratification as a matter of good corporate governance. Approval of this proposal requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting. If the appointment is not ratified, the Company's Audit Committee will consider whether it is appropriate to select another independent registered public accounting firm. Even if the appointment is ratified, the Company's Audit Committee, in its sole discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

Representatives of PwC are expected to be present at the Annual Meeting and will be available to respond to appropriate questions and will have the opportunity to make a statement if they desire to do so.

THE BOARD OF DIRECTORS AND THE AUDIT COMMITTEE RECOMMEND THAT THE SHAREHOLDERS VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2014.

UNLESS OTHERWISE INSTRUCTED, IT IS THE INTENTION OF THE PERSONS NAMED IN THE PROXY TO VOTE THE SHARES REPRESENTED THEREBY IN FAVOR OF THE PROPOSAL TO RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2014.

Independent Public Accountants

Audit Fees

The audit fees incurred by the Company for services provided by PwC (i) for the year ended December 31, 2012, were $938,000 and (ii) for the year ended December 31, 2013, were $1,125,000. Audit fees include services related to the audit of the Company's consolidated financial statements, the audit of the effectiveness of internal control over financial reporting, involvement with registration statement filings, statutory audits and consultations related to miscellaneous Securities and Exchange Commission and financial reporting matters.

Audit-Related Fees

During 2012 and 2013, the Company incurred $153,342 and $0, in fees, respectively, for assurance and related services performed by PwC that were reasonably related to the performance of the audit or review of the Company's financial statements that are not reported in the preceding section.

Tax Fees

Tax fees incurred by the Company for services provided by PwC (i) in 2012, were $44,800, and (ii) in 2013, were $105,000. Tax fees include services related to tax return preparation for a related entity, tax consultation and tax advice.

All Other Fees

All other fees incurred by the Company for services provided by PwC relate to the use of Comperio, PwC's accounting research software, which amounted to $1,500 in 2012 and $1,800 in 2013, and $25,000, in 2012, related to agreed-upon procedures involving Velocity, a wholly-owned subsidiary of Churchill Downs Incorporated. The Audit Committee has considered whether the provision of non-audit services to the Company is compatible with maintaining PwC's independence.

The Audit Committee has adopted a policy of evaluating pre-approval of services provided by the independent auditors on a case-by-case basis. The Audit Committee pre-approved all audit and permissible non-audit services provided by the independent auditors in 2013.

Advisory Vote on Executive Compensation
(Proposal No. 4)

Pursuant to Section 14A of the Securities Exchange Act of 1934, the Company's shareholders are entitled to a vote to approve, on an advisory and non-binding basis, the compensation of the Company's named executive officers ("NEOs") as disclosed in this proxy statement in accordance with SEC rules. In accordance with the preference expressed by shareholders in the 2011 advisory vote regarding the frequency of voting on the Company's executive compensation program, the Company is holding such advisory votes on an annual basis.

The Company has a "pay-for-performance" philosophy that forms the foundation of all decisions regarding compensation of the Company's NEOs. This compensation philosophy, and the program structure approved by the Compensation Committee, is central to Company's ability to attract, motivate and retain individuals who can achieve superior financial results while also aligning the interests of the executives with the interests of shareholders over the long-term. This approach has resulted in the Company's ability to attract and retain the executive talent necessary to guide the Company successfully during a period of growth and transformation. Please refer to "Compensation Discussion and Analysis—Executive Summary" for an overview of the compensation of the Company's NEOs.

This vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the policies and practices described in this proxy statement. At the Annual Meeting, shareholders will be asked to approve the compensation of the Company's NEOs by voting FOR the following resolution:

> "RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure in this proxy statement."

This vote is advisory and therefore not binding on the Company. The Board of Directors and Compensation Committee value the opinions of the Company's shareholders. Should there be a significant vote against the named executive officer compensation as disclosed in this proxy statement, the Board will consider those shareholders' concerns and will evaluate whether any actions are necessary to address those concerns.

The affirmative vote of a majority of the shares of the Company's Common Stock present in person or represented by proxy and entitled to vote on the proposal at the Annual Meeting is required for advisory approval of this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE ADVISORY RESOLUTION RELATING TO THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT.

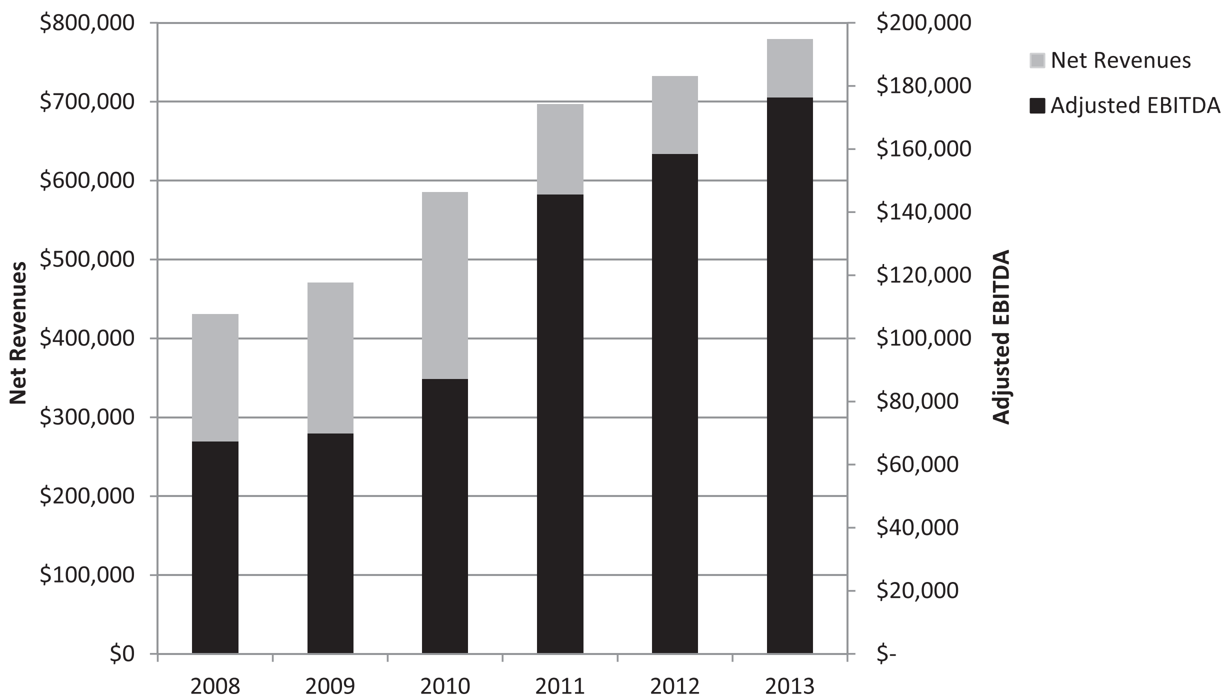
Compensation Discussion and Analysis

Executive Summary

The goal of the Company's compensation programs is and has been to attract and retain the talented executives and employees it needs to achieve its strategic plans and deliver financial returns to shareholders over both the short term and long term. To do that, the Company needs to compensate its employees and executive team in a way that encourages and rewards high performance.

Churchill Downs Incorporated, since 2007, has developed into one of the most diversified gaming companies in the United States. Driving the strategy during this timeframe, have been our Chairman & CEO, Robert L. Evans, President & COO, William C. Carstanjen, and Executive Vice President & CFO, William E. Mudd.

Table 1: Change in the Company's Adjusted EBITDA and Net Revenues since 2008 (in millions).

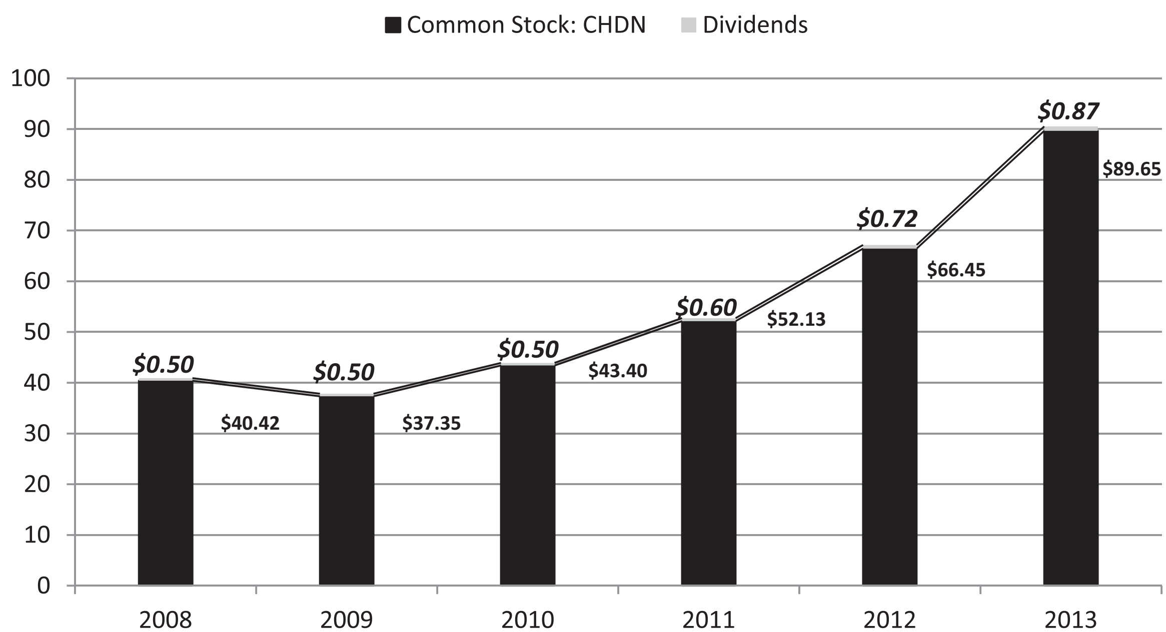


In 2013, the Company exhibited strong financial performance including $176.2[1] million in Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") (defined as earnings

(1) The Company uses Adjusted EBITDA, a non-GAAP measure, as a key performance measure of results of operations for purposes of evaluating performance internally. Adjusted EBITDA is a supplemental measure of the Company's performance that is not required by, or presented in accordance with, generally accepted accounting principles ("GAAP"). Our 2014 Annual Report (the "2014 Annual Report"), filed on Form 10-K, on page 60, gives a GAAP reconciliation for Adjusted EBITDA to net earnings, which were $54.9 million for year-end December 31, 2013. Net earnings, as reflected in our 2014 Annual Report, includes $21.5 million in share-based compensation expenses attributable to the Company's 2013 long-term incentive program, $3.6 million in re-opening costs associated with the Company's investment in MVG, $0.2 million due to financing cost associated with MVG, $61.8 million in depreciation and amortization, $6.1 million in interest expense, $0.4 million in insurance recoveries, net of losses, $4.5 million in HRE Trust Fund proceeds, $2.5 million in other charges and recoveries, and $30.5 million for income tax provisions, as these amounts are excluded from stated Adjusted EBITDA as disclosed above.

before interest, taxes, depreciation, amortization, insurance recoveries net of losses, Horse Racing Equity Trust Fund ("HRE Trust Fund") proceeds, share based compensation expenses, pre-opening expenses, the impairment of assets and other charges or recoveries, and the operating income or loss of our 50% joint venture in Miami Valley Gaming ("MVG")). The Company's continued diversification of revenues and its operational discipline enabled it to achieve these results during a time of ongoing financial challenges for the Company's historical core business of thoroughbred horseracing and contributed to significant benefits being realized by the Company's shareholders. The Company increased its dividend in 2013 by 21%. In addition, during 2013, the Company's stock price increased from $66.45, on December 31, 2012, to $89.65, on December 31, 2013, for a return of 35% for shareholders (excluding dividends). Since 2008, under its current leadership, the Company's market capitalization has more than doubled and our stock price has increased from $40.42 (as of 12/31/2008) to $89.65 (as of 12/31/2013), representing a total return of 129% for shareholders (including dividends). The Company achieved these milestones by attracting and retaining talented executives and creating a compensation strategy that pays for performance when outcomes meet or exceed strategic and financial goals.

Table 2: Increase in Company's Common Stock Price and Dividends since 2008 (as of year-end).



Under the Company's total compensation structure, the Committee believes that the payouts made with regards to 2013 reflect an appropriate level of compensation given the results delivered to shareholders over the last year.

This Compensation Discussion and Analysis describes the Company's executive compensation policies and programs and how they apply to our NEOs (the senior executives included in the 2013 Summary Compensation Table on page 46). It also describes the actions and decisions of the Committee and the Committee's special Subcommittee (the "Subcommittee"), both of which oversee the executive compensation program and determine the compensation of the NEOs. A detailed discussion of the Committee's structure (including the Subcommittee), roles and responsibilities, and related matters can be found under "Compensation Committee" on pages 21-23.

Executive Compensation Philosophy and Core Principles

The fundamental philosophy of the Compensation Committee is to provide an executive compensation program that links pay to business strategy and performance in a manner that is effective in attracting, motivating and retaining key executives while also aligning the interests of the executives with the interests of shareholders over the long-term. In order to continue to support the Company's high-performance culture, the Company's key principles underlying the executive compensation program are to:

- Attract and retain executives with the skills and experience needed to successfully grow the Company and create value for shareholders;
- Create an entrepreneurial culture and mindset by de-emphasizing fixed pay (primarily salary) and focusing a significant percentage of compensation on at-risk pay elements (annual and long-term incentives); and
- Motivate and reward executives for achieving exceptional performance which will create value for shareholders over the long-term.

The Company will continue to adjust its pay practices to support these principles over time.

2013 "Say-on-Pay" Advisory Vote on Executive Compensation

The Compensation Committee monitors closely the results of the annual advisory "say-on-pay" vote, and considers such results as one of the many factors considered in connection with the discharge of its responsibilities. In 2013, the Company provided shareholders a "say-on-pay" advisory vote on its executive compensation program, as disclosed in the Company's 2013 proxy statement. At the 2013 Annual Meeting, approximately 87% of our shareholders expressed support for the compensation of our NEOs as disclosed in the proxy statement. The Compensation Committee considered the results of the 2013 advisory vote and also considered other factors in evaluating the Company's executive compensation programs as discussed in this Compensation Discussion and Analysis, including the advice of the Committee's independent compensation consultant. The Committee did not make any changes to the Company's executive compensation program and policies specifically in light of the aforementioned vote by our shareholders.

Role of Management and Independent Advisors

The Compensation Committee meetings are regularly attended by the CEO, the Senior Vice President of Human Resources, who is responsible for leading some of the discussions regarding the Company's compensation programs as well as being responsible for recording the minutes of the meeting, and in-house corporate counsel. The Committee may request the participation of management or outside consultants as it deems necessary or appropriate. The Committee regularly reports to the Board on compensation matters and annually reviews the CEO's compensation with the Board.

The Committee and the Subcommittee may also meet in executive session without any members of management, for the purpose of among other things discussing and approving compensation for the CEO. The CEO reviews the performance of, and makes recommendations to, the Committee regarding total compensation to be paid to the Company's executive officers other than himself, including salary, annual bonus, long-term incentive awards and perquisites, as appropriate. Management also develops and presents to the Committee recommendations for the performance measures and targets to be used to evaluate annual performance incentives.

After the end of each fiscal year, the Committee conducts a review of the CEO's performance. As part of this process, the CEO provides a written self-assessment report. The Committee sets the compensation of the CEO in executive session after considering its assessment of the CEO's performance, including due consideration of his self-assessment report. Neither the CEO nor any other members of management are present during this session.

The Committee has sole discretion, at the Company's expense, to retain and terminate independent advisors, including sole authority to approve the fees and retention terms for such advisors, if it shall determine the services of such advisors to be necessary or appropriate. Such advisors are engaged by, and report directly to, the

Committee. During 2013 the Committee was assisted in fulfilling its responsibilities by Semler Brossy Consulting Group, LLC ("Semler Brossy"). The scope of the engagement of this advisor during 2013 included:

- Assisting the Chairman of the Committee in establishing appropriate agendas for the Committee meetings;
- Reviewing management reports and recommendations to the Committee as related to executive compensation matters;
- Attending all Committee meetings and providing the Committee with input and advice based on the advisor's broad experience with market practices, including a perspective with regard to the competitive market;
- Assisting with the review of pay and performance and the evaluation of payouts under the Company's long-term incentive program;
- Assisting in the review and evaluation of non-employee Director compensation;
- Providing the Committee and management with data on market practices for executive pay;
- On behalf of the Committee, assisting management with disclosures, including the Compensation Discussion and Analysis; and
- Providing updates to the Committee with regard to regulatory and market developments.

Semler Brossy did not provide any services to the Company, other than advising the Committee as provided above. All of the decisions with respect to the Company's executive compensation are made by the Committee alone and may reflect factors and considerations other than, or that may differ from, the information and recommendations provided by management or its outside advisor.

Factors Used to Evaluate Pay Decisions

The Company does not currently manage compensation for individual executives to a specific total compensation value or based on a strategy of positioning pay to a specific "percentile" of market practices. Rather, the Company seeks to retain the services of executives who bring the skills, experience, and motivation needed to significantly expand the scope and scale of the Company's operations. Therefore, compensation decisions for individual executives are made based on a balance of many subjective factors as evaluated by the CEO in the case of his direct reports (with Committee review and approval) and the Committee in the case of the CEO. These factors include, in order of importance for each element of pay:

- Base salaries tied to internal equity comparisons among the executive's peers at the Company, the Committee's perspectives on competitive market pay practices and salary at a previous employer at the time of hire;
- Target annual incentive opportunities based on internal equity considerations and the perceived level of contribution expected of the executive;
- Long-term incentive opportunities driven by the perceived level of contribution expected of the executive toward achieving the Company's growth objectives and comparisons among other Company executives who participate in the same programs; and
- Severance and change in control benefits as negotiated on an individual basis by each executive and as deemed necessary to attract their services.

Each element of compensation is evaluated independently based on the role of that component in achieving the Company's overall compensation objectives, with an emphasis on long-term incentives.

In making executive pay decisions, the Committee relies substantially on the advice and experience of its independent advisor and CEO to evaluate the reasonableness of executive pay. As there are few direct peers to the Company, the Committee does not rely directly on peer practices to establish pay levels or programs for its executives. Rather, the Committee determines pay levels and practices based on the talent needs of the organization as defined by our strategy of growing and diversifying revenues and with the guidance of the Committee's independent advisor.

While the Committee periodically conducts reviews of pay relative to broad market practices, based on data provided by the Committee's independent advisor, to set context for the Company's programs from time to time, the Committee does not use market compensation practices to drive decision making. Rather, the Committee evaluates market data to see how and why the Company's compensation practices differ from market practices and to gauge where Company compensation falls relative to the market as a secondary test of reasonableness. It is the opinion of the Committee that the pay decisions made by the Company and the Committee are reasonable relative to pay provided to executives at other public companies, based on the Committee's experience, the performance expectations established for each element of pay, and consultation with the Committee's independent advisor.

CEO Compensation

Compensation decisions made for the CEO are fundamentally different than compensation decisions made for the other executive officers. As the highest ranking executive, Mr. Evans is ultimately accountable for the performance of the business in both the near-term and long-term. Mr. Evans is also responsible for setting the strategic direction of the Company, managing the other executive officers to implement this strategy, and producing results for shareholders.

As such, in recognition of the level of responsibility and accountability placed upon the CEO and the degree of impact that he can have on business results, the pay for the CEO position differs from the other executives in two material respects:

- Higher salary and bonus opportunity, commensurate with level of responsibility and impact; and
- Emphasis on at-risk pay in the total compensation package, as appropriate to align pay with performance.

As mentioned above, the new Company LTIP for NEOs other than the CEO are more directionally aligned with the awards to the CEO in that they include specific stock price based performance hurdles in order to vest. We believe this alignment ensures overall alignment of the interests of our executive team with the interests of our shareholders.

Components of Compensation

During 2013, the Company used multiple components to provide an overall compensation and benefits package in order to attract and retain the needed level of executive talent for the Company.

Base Salary

The Committee's philosophy is that base salaries should meet the objectives of attracting and retaining the executive talent needed to grow the business and create shareholder value, without being a major focus of the overall compensation package. This approach is consistent with the desire to create an entrepreneurial management culture at the Company. Therefore, the Committee establishes base salaries for new hires based on the advice of management and its independent advisor regarding reasonable market pay practices, comparisons with the executive's peers at the Company, and the rate of pay provided at the executive's previous employer. Upon promotion or other adjustment of responsibilities, executives receive base pay increases that are commensurate with their new role or responsibilities and the pay levels for colleagues at similar levels in the organization and market pay practices, with more modest rates of increase thereafter. Increases in base salary affect the opportunity for annual incentive payouts under the incentive compensation plan.

In 2013, the following adjustments were made to the base salaries for the Company's NEOs:

Name	Position	2012 Base Salary ($)	Percentage Change	Salary Change ($)	2013 Base Salary ($)
Robert L. Evans	Chairman & CEO	$550,000	9.1%	$50,000	$600,000
William E. Mudd	EVP & CFO	420,000	3.6%	15,000	435,000
William C. Carstanjen	President & COO	465,000	3.2%	15,000	480,000
James E. Gay	Senior Vice President	335,000	0.0%	-0-	335,000
Alan K. Tse	EVP & GC	290,000	3.4%	10,000	300,000

The salary adjustments above further illustrate the Committee's overall philosophy toward compensation. Based upon Mr. Evans' additional responsibilities to the Board as Chairman, additional consideration was given to his base salary, and the Committee authorized an increase in his base salary commensurate with his level of responsibility. The other NEOs, excluding Mr. Gay, were given moderate increases in alignment with the Committee's philosophy. Mr. Gay did not receive any additional increase to his base salary, in 2013, as his base salary was previously adjusted by the Committee to reflect compensation commensurate with his new role as President of Churchill Downs Interactive.

Executive Annual Incentive Plan

Effective January 1, 2013, pursuant to the approval granted by the Company's shareholders, at the 2012 Annual Meeting, the Company implemented the Executive Annual Incentive Plan (2013) ("EAIP"). Bonus awards or incentive compensation paid, in 2013, were determined by the Committee per the EAIP. Pursuant to the EAIP, the Committee established performance goals for the Company in 2013. In analyzing proposed awards against target and maximum payouts, the Committee used the goals as its roadmap to determine whether to issue awards above, at, or below each NEOs target award. As it has done historically, for 2013, the Committee sets performance goals based upon a comprehensive assessment of the Company against its long-term strategic goals and its ability to achieve said goals with its current leadership team and key employees. Therefore, individual performance by the Company's NEOs (as measured by various factors, including, but not limited to, continued growth and diversification of the Company's asset portfolio through acquisitions, customer and employee satisfaction, and the completion of certain specified legislative and regulatory outcomes), and unit performance (as measured by among other things increases in sales and revenues) led by some of the Company's key employees also played a significant role in setting and evaluating the Company's performance goals, and determining the proper level of compensation necessary to incent the NEOs and key employees to continue to drive growth with the same entrepreneurial zeal.

2013 Performance Goals. For 2013, the Committee set the following goals (per segment) for the Company. These goals were used to assess the NEOs' performance and determine EAIP payouts as disclosed in the 2013 Summary Compensation Table on page 46. The goals are expressed generally as follows:

Racing

- Manage overall budgets to reduce cost (without impacting the customer experience);
- Increase the financial performance of big events (i.e., Kentucky Derby, Kentucky Oaks, Arlington Million, etc.);
- Continue to work on innovative approaches to combat the long-term decline in racing;

Gaming

- Achieve Adjusted EBITDA goals at our gaming properties;
- Successfully re-develop, construct and open current projects and properties;
- Assess and pursue opportunities to acquire accretive gaming properties;

Online

- Continue to invest in and grow our advanced deposit wagering businesses;
- Assess and pursue opportunities to expand our online gaming profile;

Other

- Increase Adjusted EBITDA;
- Develop technology-driven cost out opportunities for all subsidiaries; and
- Assess and plan for the impact of the Patient Protection and Affordable Care Act ("PPACA") on our business.

Incentive Opportunities. Under the EAIP, the NEOs have target award opportunities, which the Committee reserves the right to exercise negative discretion against if it so chooses. For NEOs, these targets are determined by the Committee based on the internal pay equity considerations, impact on total short-term compensation and the expected level of contribution of each NEO to the Company's performance goals and growth objectives.

The Compensation Committee approves the target and maximum incentive levels proposed by the CEO for each NEO, excluding himself, at the beginning of each year. In determining the payouts, the Compensation Committee exercises its discretion to determine whether to payout at, above, or below the target opportunities based upon its review of the outcomes evaluated against Company and individual performance. During 2013, the target and maximum awards assigned to the CEO and other NEOs were as follows, which were the same target and maximum award opportunities as established under the 2012 incentive compensation plan:

Name	Position	Target Incentive Award as a Percentage of Salary	Target Incentive Award in ($)	Maximum Target Incentive Award as a Percentage of Salary	Maximum Target Incentive Award in ($)
Robert L. Evans	Chairman & CEO	100%	$600,000	200%	$1,200,000
William E. Mudd	EVP & CFO	70%	304,500	200%	609,000
William C. Carstanjen	President & COO	75%	360,000	200%	720,000
James E. Gay	Senior Vice President	60%	201,000	200%	402,000
Alan K. Tse	EVP & GC	60%	180,000	200%	360,000

2013 Performance Results. The Company's continued diversification, in 2013, included the acquisition of a regional casino in Oxford, Maine, and the successful opening of a joint venture video lottery parlor and harness racetrack in Lebanon, Ohio. Total attendance at the 139th Kentucky Derby and Oaks was strong despite inclement weather, hosting 265,436 fans. Wagering from all-sources on the Kentucky Derby totaled $184.6 million. These achievements contributed to significant benefits being realized by the Company's shareholders.

The results for amounts earned by the NEOs for 2013 under the EAIP are reflected in the 2013 Summary Compensation Table on page 46 in the column labeled "Non-Equity Incentive Plan Compensation". As noted above, the Company exhibited strong financial performance in 2013, which exceeded the performance goals. The top three NEOs (Mr. Evans, Mr. Carstanjen, Mr. Mudd) were viewed by the Committee to be the primary parties responsible for meeting and exceeding the performance goals in 2013. The Compensation Committee, after considering overall Company performance awarded the named executive officers EAIP awards above the target, as shown in the table on page 46, to reward them for the Company's outstanding performance. As such, the NEOs were awarded an EAIP award at the following percentage of their base salary: Mr. Evans 138%, Mr. Carstanjen 147%, Mr. Mudd 148%, Mr. Tse 131%, and Mr. Gay 104%. These awards were made pursuant to the EAIP and as a reward for the NEOs respective roles in driving performance during the period ending December 31, 2013.

Long-Term Incentives

Corporate Long-Term Incentive Plan. The objective of the Company's long-term incentive compensation program is to support the entrepreneurial mindset desired by management and the Board of Directors by providing an opportunity to earn significant equity in the Company for achieving significant performance improvements.

For 2013, the Company opted to develop a new long-term incentive program utilizing the 2007 Omnibus Stock Incentive Plan (the "New Company LTIP"). As a way to continue to encourage innovation, an entrepreneurial approach, and careful risk assessment, in addition to the retention of key executives, the Company's new incentive program offers new long-term incentive compensation opportunities to the Company's NEOs, with the exception of Robert L. Evans. Restricted stock awards were issued, to the NEOs, under the New Company LTIP, on March 21, 2013.

The restricted stock awards are divided between time-vesting and stock price-vesting restricted stock (weighted approximately 25% and 75%, respectively). All time-based restricted shares will vest by December 31, 2016, while the stock-price vesting restricted shares vest over a five-year performance period based on the Company's stock price performance.

- For each NEO, with the exception of Alan K. Tse, vesting of the time-based restricted shares will occur in two equal installments on December 31, 2015 and December 31, 2016. In the case of Mr. Tse, his time-based restricted shares vest in increments of twenty-five percent (25%) in 2013, 2014, 2015, and 2016.
- The vesting schedules for the stock-price based restricted share awards are tied to stock-price triggers. The stock-price triggers for the NEOs are comprised of four vesting triggers tied to the daily closing NASDAQ stock market price for the Company's Common Stock (collectively, referred to as the "Stock Price Triggers"). Stock Price Trigger 1 is at least 10% above the trailing 20-day average NASDAQ market closing price on the date of grant and each successive Stock Price Trigger (2, 3 and 4) is at least 10% above the preceding Stock Price Trigger, with the vesting of the stock price shares to occur in 25% installments for each Stock Price Trigger attained. In order for a Stock Price Trigger to be reached the Company must successfully achieve and maintain for a 20 consecutive trading day period a specific daily share closing price value.

As an additional key executive retention device, the vesting of any Stock Price Triggers achieved in 2013 was subject to the NEO's continued employment until the first anniversary of the grant date, March 21, 2014. If the Company does not achieve a Stock Price Trigger during the five-year performance period, NEOs under this program will forfeit any incentive compensation opportunity tied to such Stock Price Trigger.

During 2013, the Company achieved the first and second Stock Price Triggers under the New Company LTIP. The Company's daily share closing price, closed at or above Stock Price Trigger 1 for twenty (20) consecutive trading days, resulting in each NEO earning the award tied to Stock Price Trigger 1 on May 24, 2013. The Company's daily share closing price closed at or above Stock Price Trigger 2 for twenty (20) consecutive trading days, resulting in each NEO earning the award tied to Stock Price Trigger 2 on December 19, 2013. Since Stock Price Triggers 1 and 2 were attained in 2013, pursuant to the vesting schedule of the New Company LTIP, the share awards associated with both triggers did not vest until March 21, 2014.

Upon the first and second triggers being achieved, 50% of the total stock-price vesting award opportunity to the NEOs (excluding Mr. Evans who does not participate in the New Company LTIP) was earned under the New Company LTIP. The amounts earned by each NEO (excluding the Chairman & CEO who did not participate in the plan) with regard to the achievement of the first and second triggers under the New Company LTIP are as follows:

Name	Position	New Company LTIP Share Award for Achievement of Stock Price Trigger 1[(1)]	Fair Market Value for Stock Price Trigger 1 in ($) as of 5/24/13	New Company LTIP Share Award for Achievement of Stock Price Trigger 2[(1)]	Fair Market Value for Stock Price Trigger 2 in ($) as of 12/19/2013
Robert L. Evans	Chairman & CEO	n/a	$ n/a	n/a	$ n/a
William E. Mudd	EVP & CFO	20,000	1,646,000	20,000	1,769,600
William C. Carstanjen	President & COO	22,500	1,851,750	22,500	1,990,800
James E. Gay	Senior Vice President	10,750	884,725	10,750	951,160
Alan K. Tse	EVP & GC	9,750	802,425	9,750	862,680

(1) These awards are disclosed in the 2013 Summary Compensation Table on page 46 and the Grant of Plan-Based Awards Table for Fiscal Year Ended December 31, 2013, on page 48, based on the aggregate grant date fair value of the award. The amounts reported for the New Company LTIP include both the vested and unvested restricted shares granted to each NEO. The 2013 Summary Compensation Table and Grants of Plan-Based Awards Table for Fiscal Year ended December 31, 2013 also reflect the awards made pursuant to the 2008-2012 LTIP related to the achievement of the fourth and fifth EBITDA targets as those awards were deemed granted during 2013.

2008-2012 LTIP. The 2008-2012 LTIP terminated on December 31, 2012. As disclosed in the 2013 Proxy Statement, during 2012, the Company achieved the fourth and fifth EBITDA targets under the 2008-2012 LTIP, which were $115 million and $130 million in EBITDA, respectively. Upon the determination that the fourth and fifth EBITDA targets had been achieved, 30% of each NEO's payment opportunity (excluding Mr. Evans who did not participate in the 2008-2012 LTIP) associated with such targets was earned, while the amount earned for the remaining portion of such payment opportunity varied among the applicable NEOs based upon such NEO's contribution to the growth in EBITDA that resulted in the target being achieved, as determined by the CEO with the approval of the Sub-Committee. The performance awards paid under the 2008-2012 LTIP for the achievement of the fourth and fifth EBITDA targets were paid in the form of restricted stock, which will vest in equal quarterly installments over two (2) years in the case of the fourth EBITDA target, and one (1) year in the case of the fifth EBITDA target, beginning on March 31, 2013. The amounts earned by each NEO (excluding the CEO who did not participate in the 2008-2012 LTIP) with regard to the achievement of the fourth and fifth EBITDA targets under the 2008-2012 LTIP were as follows:

Name	Position	2008-2012 LTIP Share Award for Achievement of EBITDA Target 4[(11)]	Fair Market Value for EBITDA Target 4 in ($) as of 12/31/2012	2008-2012 LTIP Share Award for Achievement of EBITDA Target 5[(1)]	Fair Market Value for EBITDA Target 5 in ($) as of 12/31/2012
Robert L. Evans	Chairman & CEO	n/a	$ n/a	n/a	$ n/a
William E. Mudd	EVP & CFO	18,811	1,250,000	10,534	700,000
William C. Carstanjen	President & COO	24,454	1,625,000	13,544	900,000
James E. Gay	Senior Vice President	11,287	750,000	3,762	250,000
Alan K. Tse	EVP & GC	3,762	250,000	1,881	125,000

(1) These awards are disclosed in the 2013 Summary Compensation Table on page 46 and the Grant of Plan-Based Awards Table, for Fiscal Year Ended December 31, 2013, on page 48 as shares were granted in 2013 pursuant to these awards. The 2013 Summary Compensation Table reflect the awards made pursuant to the 2008-2012 LTIP related to the achievement of the fourth and fifth EBITDA targets, as well as, the awards, both vested and unvested, issued pursuant to the New Company LTIP, which were awarded in March of 2013.

As illustrated in the tables above, although the column labeled "Stock Awards" on the 2013 Summary Compensation Table on page 46 reflects the total equity awards granted in 2013, we are providing further detail so as to disclose to our shareholders that the amounts reflect the overlap of two long-term incentive programs in the same calendar year (2013). Both the 2008-2012 LTIP and New Company LTIP had awards that were granted in calendar year 2013. Therefore, the figures reported, in the "Stock Awards" column, for fiscal year end December 31, 2013, in the 2013 Summary Compensation Table on page 46, constitute an anomaly that the Compensation Committee and Company does not anticipate occurring again during the performance periods remaining until the expiration of the New Company LTIP. Nonetheless, the Compensation Committee and Board agree that the level of award granted to the NEOs for performance under the 2008-2012 and New Company LTIP demonstrate soundly the philosophy that by placing a sufficient degree of compensation "at-risk" the NEOs are incented to drive growth to a level that returns significant value to the Company's shareholders.

Long-Term Incentives for the CEO. Mr. Evans as the CEO received a significant grant of Company stock (with both time- and performance-based vesting) as a component of his original 2006 employment agreement and his amended and restated employment agreement in 2010 and therefore he has not been, nor is he currently, a participant in the New Company LTIP. The Committee believes that having a separate incentive plan for the CEO from the incentive plan for the rest of the executive team in this context is appropriate and beneficial as it allows the CEO to evaluate the Company's long-term performance and make recommendations to the Committee regarding the pay of his direct reports without bias to his own compensation from the Company. Mr. Evans was not granted any equity-based awards in 2011, 2012 or 2013.

Deferred Compensation Benefits

The Company's philosophy is to provide retirement and savings benefits to executives which are commonly provided by other public companies. These benefits include:

401(k). The Company maintains a 401(k) Retirement Plan, which is a profit sharing plan that is intended to be a qualified retirement plan under Section 401(a) of the Code. The 401(k) Retirement Plan allows all employees who meet the eligibility requirements to become participants. Participants may make salary deferral contributions pursuant to Section 401(k) of the Code up to limits prescribed by the plan and the Code. The Company makes matching contributions with respect to such salary deferrals at a rate of 100% on the first 3% of compensation deferred and 50% on deferrals in excess of 3% of compensation deferred but no more than 5% of compensation deferred. Salary deferral contributions and matching contributions are fully vested at all times. Participants are allowed to direct investment of their accounts under the 401(k) Retirement Plan into as many as 25 investment options. All assets of the 401(k) Retirement Plan are held in a trust which is intended to be qualified under Section 501 of the Code.

Deferred Compensation Plan. The Company also maintains a Deferred Compensation Plan for select executives. The purpose of the plan is to provide eligible executives of the Company an opportunity to defer to a future date the receipt of base salary and bonus compensation for services and to receive matching contributions in similar fashion as provided by the Company's 401(k) Retirement Plan for any base salary and bonus deferred beyond the limits imposed by the IRS for that plan. The Committee believes that a Deferred Compensation Plan is a normal and typical benefit for executives at companies similar to the Company and is necessary to attract and retain executive talent.

For purposes of determining earnings under the Deferred Compensation Plan, various hypothetical investment alternatives are selected by the Committee in its discretion. The Deferred Compensation Plan allows, but does not require, the Committee to receive input from participants regarding such investment alternatives. The current hypothetical investments selected by the Committee include 33 investment return options for determining the rate of return to be credited on participant deferrals. Participants are allowed to choose among these investment return options in order to direct the hypothetical investments used to determine earnings under the Plan.

Life insurance contracts have been purchased by the Company to provide some or all of the benefits under the Deferred Compensation Plan. Other details regarding the Deferred Compensation Plan can be found in the Nonqualified Deferred Compensation Table and the accompanying narrative below.

Allowances and Other Benefits

The Company's standard, non-cash executive benefits are Company-paid premiums on executive term life insurance and an optional supplemental long-term disability income plan for all of the NEOs. These plans provide benefits which are similar to those provided to all employees, but extend the benefit levels to be appropriate to the income of the executive officers.

The Company's executive perquisites are as follows:

- Automobile allowance, including reimbursement for gas expenses, in the case of Mr. Evans, as provided for in the negotiated terms of Mr. Evans' amended and restated employment agreement with the Company;
- Reimbursement of spouse's travel expenses for travel with the executive on Company business on a case-by-case basis; and
- In lieu of paying for country club dues, professional association memberships or similar items, the Chairman and Chief Executive Officer, President and Chief Operating Officer and all Executive Vice Presidents are given an annual allowance of $10,000 to cover expenses such as these, except Mr. Gay, who is allocated $7,500.

Severance Benefits

The Committee believes that arrangements which provide benefits upon termination or a change in control of the Company support the goals of attracting and retaining qualified executives by clarifying the terms of employment and reducing the risks to the executive in situations where the executive believes that the Company may undergo a merger or be acquired or where the Company has tasked the executive to develop new markets or lines of business for the Company. In addition, the Committee believes that such agreements align the interests of executives with the interests of shareholders if a qualified offer to acquire the Company is made, in that each of the executives would likely be aware of or involved in any such negotiation and it is to the benefit of shareholders to have the executives negotiating in the best interests of the Company without regard to their personal financial interests. The terms of the individual agreements have been negotiated on a case by case basis with each executive at the time of hire (or in some cases, at the time of a material change in duties) as the Committee deemed necessary to induce the acceptance of employment with the Company. The Committee believes that amounts payable under each of these agreements were necessary to induce acceptance of the Company's offer of employment or, as applicable, material change in duties and are reasonable based on the Committee's judgment and experience.

Additional information regarding severance benefits may be found under "Potential Payments Upon Termination or Change in Control" below.

Section 162(m) of the Code

Section 162(m) of the Code limits the deductibility of certain executive compensation in excess of $1 million that is not considered "performance based" as defined by the Code. The Company seeks to maximize the tax deductibility of compensation paid to its executives wherever possible, but the Committee believes that it is important to maintain compensation programs that are competitive and motivate executives irrespective of the deductibility of such payments under the Code.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the information appearing above under the heading "Compensation Discussion and Analysis" with management and, based on that review and discussion, has recommended to the Board of Directors that the "Compensation Discussion and Analysis" section be included in this Proxy Statement and the Company's Annual Report on Form 10-K for the year ending December 31, 2013.

Compensation Committee of the Board of Directors:
Leonard S. Coleman, Jr., Chairman
Craig J. Duchossois
Daniel P. Harrington
James F. McDonald
Darrell R. Wells

2013 Summary Compensation Table

The following table provides information regarding compensation earned by each individual who served as our Chief Executive Officer in 2013, our Chief Financial Officer in 2013, and the three other executive officers employed at the end of 2013 who were the most highly compensated for 2013 (sometimes referred to in this proxy statement as the "named executive officers" or "NEOs").

Name and Principal Position	Year	Base Salary ($)	Bonus ($)	Stock Awards ($)(2)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)(4)	Total ($)(1)
Robert L. Evans	**2013**	**$588,462**	**$ -0-**	**$ -0-**	**$-0-**	**$825,000**	**$75,433**	**$1,488,895**
Chairman and Chief	**2012**	**550,000**	**-0-**	**-0-**	**-0-**	**875,000**	**78,122**	**1,503,122**
Executive Officer	**2011**	**550,500**	**-0-**	**-0-**	**-0-**	**875,000**	**76,619**	**1,501,619**
William E. Mudd	**2013**	**431,539**	**-0-**	**7,417,000**	**-0-**	**450,000**	**36,803**	**8,335,341**
Executive Vice	**2012**	**420,000**	**-0-**	**1,250,000**	**-0-**	**425,000**	**36,273**	**2,131,273**
President and Chief Financial Officer	**2011**	**371,442**	**-0-**	**1,377,900**	**-0-**	**400,000**	**29,920**	**2,179,262**
William C. Carstanjen	**2013**	**476,539**	**-0-**	**8,843,525**	**-0-**	**530,000**	**22,150**	**9,872,213**
President and Chief	**2012**	**465,000**	**-0-**	**1,625,000**	**-0-**	**500,000**	**21,605**	**2,611,605**
Operating Officer	**2011**	**452,000**	**-0-**	**1,596,300**	**-0-**	**525,000**	**21,708**	**2,595,008**
James E. Gay	**2013**	**335,000**	**-0-**	**4,022,588**	**-0-**	**210,000**	**39,320**	**4,606,908**
Senior Vice President	**2012**	**286,346**	**-0-**	**750,000**	**-0-**	**180,000**	**14,527**	**1,230,873**
	2011	**241,439**	**-0-**	**300,000**	**-0-**	**120,000**	**14,446**	**675,885**
Alan K. Tse	**2013**	**297,692**	**-0-**	**3,056,978**	**-0-**	**235,000**	**27,878**	**3,617,548**
Executive Vice	**2012**	**290,000**	**60,000**	**150,000**	**-0-**	**180,000**	**41,350**	**721,350**
President and General Counsel	**2011**	**221,962**	**20,000**	**-0-**	**-0-**	**174,000**	**64,116**	**480,078**

(1) A discussion of the assumptions used in calculating these values may be found in Notes 15 and 16 to our 2013 audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

(2) In accordance with the SEC executive compensation disclosure rules, the amounts shown for stock awards represent the grant date fair value of such awards determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation ("FASB ASC Topic 718"), but disregarding the estimate of forfeitures related to service-based vesting conditions, in connection with (i) service-based restricted stock pursuant to the 2008-2012 LTIP for Mr. Carstanjen, Mr. Mudd, Mr. Tse and Mr. Gay, (ii) service-based and stock-price vesting restricted stock pursuant to the New Company LTIP for Mr. Carstanjen, Mr. Mudd, Mr. Tse and Mr. Gay and (iii) service-based restricted stock issued to Mr. Carstanjen and Mr. Mudd in 2011 pursuant to separate restricted stock agreements. The amounts reported for the stock-price vesting restricted stock granted under the New Company LTIP are reported based on the probable outcome of the underlying vesting conditions. Because the vesting condition relating to the New Company LTIP awards is considered a market-based vesting condition and not a performance-based vesting condition, there is no grant date fair value below or in excess of the amounts reflected in the table above that could be calculated and disclosed based on achievement of market conditions.

(3) Amounts in this column represent payments for performance under the Executive Annual Incentive Plan ("EAIP"). Payment for each year shown is made by March 31 of the following year.

(4) The table below shows the components of this column for 2013, which include the Company match for each individual's defined contribution plan contributions, life insurance premiums, supplemental long-term

disability insurance premiums and allowances. Allowances for Mr. Evans for 2013 include the $10,000 allowance for country club, professional association or similar membership dues and $28,901 for Mr. Evans' ground transportation allowance. Allowances for each of Mr. Carstanjen, Mr. Mudd and Mr. Tse for 2013 include a $10,000 allowance for financial planning, tax preparation, home security, miscellaneous club, professional association or similar membership dues. Allowances for Mr. Gay for 2013 include a $7,500 allowance for financial planning, tax preparation, home security, miscellaneous club, professional association or similar membership dues. Additionally, $22,154 in relocation expense reimbursements is also included for Mr. Gay.

All Other Compensation
For Fiscal Year Ended December 31, 2013

Name	Company Contributions Under Defined Contribution Plans (a)	Life Insurance Premiums (b)	Supplemental Long-Term Disability Insurance Premiums (c)	Allowances (d)	Total All Other Compensation
Robert L. Evans	**$32,038**	**$3,015**	**$1,479**	**$38,901**	**$75,433**
William E. Mudd	**25,620**	**379**	**750**	**10,054**	**36,803**
William C. Carstanjen	**10,200**	**545**	**900**	**10,504**	**22,150**
James E. Gay	**8,746**	**266**	**654**	**29,654**	**39,320**
Alan K. Tse	**16,610**	**269**	**999**	**10,000**	**27,878**

(a) This amount includes Company contributions to both 401(k) and deferred compensation accounts.

(b) The NEOs receive group life coverage equal to two times base salary with a $1 million maximum, whereas other employees receive coverage of two times base salary with a $300,000 maximum. The amounts in this column are the premiums for the NEOs' coverage.

(c) The NEOs receive long-term disability coverage equal to sixty percent (60%) of the named executive officer's base salary with a $10,000 per month maximum in the event of a long-term disability, which benefit is taxable to the named executive officer. The Company offers supplemental long-term disability income insurance to help fill the gap between the executive's regular monthly net income and the amount that would be paid under the Company's standard long-term disability insurance policy that is available to other salaried employees. The amounts in this column are the premiums for the NEOs' supplemental coverage paid by the Company.

(d) See Note 4 to the 2013 Summary Compensation Table on page 46-47.

Grants of Plan-Based Awards
For Fiscal Year Ended December 31, 2013

The grants in the following table are generally described in the Compensation Discussion and Analysis, beginning on page 34.

Name	Grant Date	Estimated Future Payout under Non-Equity Incentive Plan Awards[(1)]			All Other Stock Awards- Number of Shares of Stock or Units (#)	All Other Option Awards; Number of Securities Underlying Options (#)	Exercise Price or Base Price of Option Awards ($/Share)	Grant Date Fair Value of Stock and Option Awards ($)
		Threshold ($)	Target ($)	Max ($)				
Robert L. Evans	n/a	300,000	600,000	1,200,000				
William E. Mudd	n/a	152,250	304,500	609,000				
	2/26/2013				18,811[(2)]	-0-	-0-	$1,250,000
	2/26/2013				10,534[(2)]	-0-	-0-	$ 700,000
	3/21/2013				20,000[(3)]	-0-	-0-	$1,345,200
	3/21/2013				80,000[(4)]	-0-	-0-	$4,121,800
William C. Carstanjen	n/a	180,000	360,000	720,000				
	2/26/2013				24,454[(2)]	-0-	-0-	$1,625,000
	2/26/2013				13,544[(2)]	-0-	-0-	$ 900,000
	3/21/2013				25,000[(3)]	-0-	-0-	$1,681,500
	3/21/2013				90,000[(4)]	-0-	-0-	$4,637,025
James E. Gay	n/a	100,500	201,000	402,000				
	2/26/2013				11,287[(2)]	-0-	-0-	$ 750,000
	2/26/2013				3,762[(2)]	-0-	-0-	$ 250,000
	3/21/2013				12,000[(3)]	-0-	-0-	$ 807,120
	3/21/2013				43,000[(4)]	-0-	-0-	$2,215,468
Alan K. Tse	n/a	90,000	180,000	360,000				
	2/26/2013				3,762[(2)]	-0-	-0-	$ 250,000
	2/26/2013				1,881[(2)]	-0-	-0-	$ 125,000
	3/21/2013				10,000[(3)]	-0-	-0-	$ 672,600
	3/21/2013				39,000[(4)]	-0-	-0-	$2,009,378

(1) Represents annual incentive bonus opportunities under the EAIP for each of the NEO's awarded. See "Compensation Discussion and Analysis" beginning on page 34. Actual bonus payments for 2013 are listed under Non-Equity Incentive Plan Compensation in the Summary Compensation Table on page 46.

(2) Represents restricted stock awards under the 2008-2012 LTIP that were granted in 2013 that will vest in equal quarterly installments over two-year and one-year restriction periods, respectively, which commenced on March 31, 2013.

(3) Represents time-based restricted stock awards under the New Company LTIP. For each NEO, with the exception of Alan K. Tse, vesting of the time-based restricted shares will occur in two equal installments on December 31, 2015 and December 31, 2016. In the case of Mr. Tse, his time-based restricted shares vest in increments of twenty-five percent (25%) in 2013, 2014, 2015 and 2016.

(4) Represents restricted stock awards under the New Company LTIP that will vest based on stock-price performance over five years commencing on March 21, 2013.

Outstanding Equity Awards at Fiscal Year-End
For Fiscal Year Ended December 31, 2013

	Stock Awards							
Name	**Number of Securities Underlying Unexercised Options Exercisable (#)**	**Number of Securities Underlying Unexercised Options Unexercisable (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)(6)**	**Equity Incentive Plan Awards; Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards; Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(6)**
Robert L. Evans	180,000(1)	-0-	$35.19	11/14/2016	42,656(2)	$3,824,110	-0-	-0-
William E. Mudd	4,500	-0-	$52.58	10/15/2017	15,000(3)	$1,344,750	-0-	-0-
					9,404(4)	$ 843,069		
					60,000(5)	$5,379,000	40,000(7)	$3,586,000
William C. Carstanjen	-0-	-0-	-0-	-0-	15,000(3)	$1,344,750	-0-	-0-
					12,226(4)	$1,096,061		
					70,000(5)	$6,275,500	45,000(7)	$4,034,250
James E. Gay	-0-	-0-	-0-	-0-	5,643(4)	$ 505,895	-0-	-0-
					33,500(5)	$3,003,275	21,500(7)	$1,927,475
Alan K. Tse	-0-	-0-	-0-	-0-	1,880(4)	$ 168,542	-0-	-0-
					27,000(5)	$2,420,550	19,500(7)	$1,748,175

(1) Represents options granted to Mr. Evans on September 27, 2010, pursuant to his amended and restated employment agreement, which have completely vested.

(2) Represents shares of restricted stock granted to Mr. Evans on September 27, 2010 pursuant to his amended and restated employment agreement that vest in quarterly installments of either 4,062 shares or 4,063 shares of restricted stock on the last day of each calendar quarter through June 30, 2016, with an initial installment of 2,032 shares of restricted stock that vested on September 30, 2011, and a final installment of 2,031 shares of restricted stock that will vest on August 14, 2016.

(3) Represents restricted stock awarded in connection with Mr. Mudd's and Mr. Carstanjen's employment agreements that will become vested after restriction periods that expire on March 31, 2015 and March 21, 2014, respectively.

(4) Represents restricted stock awards under the 2008-2012 LTIP that become vested in equal quarterly installments over a two-year restriction period that commenced on March 31, 2013.

(5) Represents restricted stock awards under the New Company LTIP that were granted in 2013 but have not yet vested.

(6) Based on the closing price of our Common Stock on the NASDAQ Global Market at December 31, 2013 of $89.65 per share.

(7) Represents restricted stock awards under the New Company LTIP that will vest, if at all, over a five-year performance period based on the Company's stock price performance.

Option Exercises and Stock Vested
For Fiscal Year Ended December 31, 2013

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(1)
Robert L. Evans	**-0-**	**-0-**	**76,250**	**$5,871,775**
William E. Mudd	**-0-**	**-0-**	**37,689**	**3,062,775**
William C. Carstanjen	**-0-**	**-0-**	**48,844**	**3,969,308**
James E. Gay	**-0-**	**-0-**	**18,902**	**1,536,057**
Alan K. Tse	**-0-**	**-0-**	**5,200**	**646,667**

(1) Amounts reflect the market value of the stock on the day the stock vested.

Nonqualified Deferred Compensation
For Fiscal Year Ended December 31, 2013

Name	Executive Contributions in Last Fiscal Year ($)(1)	Registrant Contributions in Last Fiscal Year ($)(2)	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)(3)
Robert L. Evans	**$ 631,692**	**$21,838**	**$239,937**	**$-0-**	**$3,652,928**
William E. Mudd	**21,577**	**15,420**	**40,559**	**-0-**	**218,821**
William C. Carstanjen	**-0-**	**-0-**	**-0-**	**-0-**	**-0-**
James E. Gay	**-0-**	**-0-**	**-0-**	**-0-**	**-0-**
Alan K. Tse	**14,885**	**6,410**	**1,395**	**-0-**	**22,689**

(1) The amounts in this column are also included in the 2013 Summary Compensation Table on page 46 in the salary column or the non-equity incentive plan compensation column.

(2) The amounts in this column are also included in the 2013 Summary Compensation Table on page 46 in the all other compensation column as a part of the Company contributions under defined contribution plans.

(3) Of the totals in this column, the following totals have previously been reported in the Summary Compensation Table for this year and for previous years:

Name	2013 ($)	Previous Years ($)	Total
Robert L. Evans	**$653,530**	**$2,618,814**	**$3,272,344**
William E. Mudd	**36,997**	**115,232**	**152,229**
William C. Carstanjen	**-0-**	**-0-**	**-0-**
James E. Gay	**-0-**	**-0-**	**-0-**
Alan K. Tse	**21,294**	**-0-**	**21,294**

The Nonqualified Deferred Compensation table above shows information about the Company's nonqualified deferred compensation plan. Executive officers and other executives may defer receipt of all or part of their cash compensation under this plan. The plan operates in a similar manner as the Company's 401(k) plan, whereby participants can manage their self-directed accounts to allocate balances among various investment alternatives, which determine gains or losses under the plan. A company match is provided for amounts deferred above the qualified plan limits. The plan is unfunded for ERISA purposes and subject to forfeiture in the event of insolvency or bankruptcy by the Company. Participants can elect to receive their deferred compensation balance (i) upon termination of employment through a lump sum payment or (ii) while employed by the Company provided that the initial distribution date is at least five (5) years from the initial participation date, in which case distributions may be made on a monthly basis or in a lump sum.

Potential Payments Upon Termination or Change of Control

The Company has entered into certain agreements and maintains certain plans that will require the Company to provide compensation to the NEOs of the Company in the event of a termination of employment or a change in control ("CIC") of the Company. The amount of compensation payable to each named executive officer in each situation upon termination of the executive as of December 31, 2013 is listed in the table below.

Name	Cash Severance Payment	Continuation of Medical / Welfare Benefits (Present Value)	Acceleration & Continuation of Equity Awards[1]	Excise Tax Gross-Up	Total Benefits
Robert L. Evans					
Involuntary or good reason termination	**$1,800,000**	**$ -0-**	**$ -0-**[3]	**$ -0-**	**$ 1,800,000**
Change In Control without termination	**-0-**	**-0-**	**1,912,055**[4]	**-0-**	**1,912,055**
Death or Disability	**600,000**[2]	**-0-**	**2,185,219**[5]	**-0-**	**2,785,219**
Involuntary or good reason termination within 2 years CIC	**1,800,000**	**-0-**	**3,824,110**[6]	**-0-**	**5,624,110**
William E. Mudd					
Involuntary or good reason termination	**$1,109,250**	**$ -0-**	**$ 1,344,750**[3]	**$ -0-**	**$ 2,454,000**
Death or Disability	**304,500**[2]	**-0-**	**2,187,819**[7]	**-0-**	**2,492,319**
Involuntary or good reason termination within 2 years CIC	**1,109,250**	**-0-**	**11,152,819**[8]	**2,755,231**	**15,017,300**
William C. Carstanjen					
Involuntary or good reason termination	**$1,260,000**	**$ -0-**	**$ 1,344,750**[3]	**$ -0-**	**$ 2,604,750**
Death or Disability	**360,000**[2]	**-0-**	**2,440,811**[7]	**-0-**	**2,800,811**
Involuntary or good reason termination within 2 years CIC	**1,260,000**	**-0-**	**12,750,561**[8]	**2,928,552**	**16,939,113**
James E. Gay					
Involuntary or good reason termination	**$ 167,500**	**$8,907**	**$ -0-**	**$ -0-**	**$ 176,407**
Death or Disability	**-0-**	**-0-**	**505,895**	**-0-**	**505,895**
Involuntary or good reason termination within 2 years CIC	**167,500**	**8,907**	**5,436,645**[8]	**-0-**	**5,613,052**
Alan K. Tse					
Involuntary or good reason termination	**$ 75,000**	**$9,788**	**$ -0-**	**$ -0-**	**$ 84,788**
Death or Disability	**-0-**	**-0-**	**168,542**	**-0-**	**168,542**
Involuntary or good reason termination within 2 years CIC	**75,000**	**9,788**	**4,337,267**[8]	**-0-**	**4,422,055**

(1) Represents the market value as of December 31, 2013, of restricted stock awards and the spread between exercise and market prices as of December 31, 2013, for option awards. For purposes of this disclosure, market value is the closing price of our Common Stock on the NASDAQ Global Market at December 31, 2013, of $89.65 per share.

(2) Represents the pro rata bonus for the year of death or disability based on the target bonus the executive was eligible to receive for that year.

(3) In the event of involuntary or good reason termination, Mr. Evans would vest in only those equity awards scheduled to vest up to and during the quarter in which such termination occurs; equity awards scheduled to vest after such quarter would be forfeited. This value reflects the fact that on December 31, 2013, Mr. Evans would have fully vested in those equity awards scheduled to vest during the quarter and thus no awards pertaining to the quarter would have remained unvested and subject to acceleration of vesting. With regard to Mr. Carstanjen and Mr. Mudd, this value reflects the market value of the unvested restricted stock granted to each of them in accordance with their employment agreements.

(4) Represents the market value of fifty percent (50%) of all of Mr. Evans' unvested equity awards, as of December 31, 2013. In the event of a change in control, Mr. Evans would immediately vest in fifty percent (50%) of his unvested equity awards as of the time of the change in control; remaining unvested equity awards would continue to vest based on existing vesting schedules.

(5) Represents 18 months accelerated vesting of 24,375 shares of restricted stock pursuant to the terms of Mr. Evans' employment agreement.

(6) Represents the market value of one hundred percent (100%) of all of Mr. Evans' unvested equity awards, as of December 31, 2013. In the event of involuntary or good reason termination within two years of a change in control, Mr. Evans would vest in any then-remaining unvested equity awards.

(7) Represents one hundred percent (100%) of the earned but unvested awards under the 2008-2012 LTIP and, with respect to Mr. Carstanjen and Mr. Mudd, the accelerated vesting of the restricted stock granted to each of them in accordance with their employment agreements.

(8) Represents one hundred percent (100%) of all earned but unvested awards under the 2008-2012 LTIP, with respect to Mr. Carstanjen and Mr. Mudd, the accelerated vesting of the restricted stock granted to each of them in accordance with their employment agreements, and one hundred percent (100%) of all unvested restricted stock awards granted under the New Company LTIP.

Non-Compete and Non-Solicit Provisions

Pursuant to each of the agreements with Mr. Evans and Mr. Tse, each executive is subject to a two year non-competition period after the termination of his employment with the Company for any reason, during which he may not engage, directly or indirectly, in any business for competitors of the Company. Additionally, Mr. Evans and Mr. Tse are subject to a two year non-solicitation period after the termination of his employment with the Company for any reason, during which he may not solicit any employee of the Company to leave employment with the Company or solicit any customer of the Company for the purpose of engaging in business with them that competes with the business engaged in by the Company. Mr. Carstanjen and Mr. Mudd are subject to (i) a one year non-competition period after the termination of his employment with the Company for any reason, during which he may not engage, directly or indirectly, in any business for competitors of the Company and (ii) a one year non-solicitation period after the termination of his employment with the Company for any reason, during which he may not solicit any employee of the Company to leave employment with the Company or solicit any customer of the Company for the purpose of engaging in business with them that competes with the business engaged in by the Company.

Severance Benefits. The employment agreements provide for the following principal severance provisions upon termination by the Company without cause or by the executive upon constructive termination or for good reason (as defined in each agreement):

Mr. Evans. Cash payments equal to the product of 1.5 times the sum of (a) his base salary plus (b) his target bonus for the year of termination of employment, payable in equal installments over 18 months; continued vesting of equity incentives, and health and welfare benefits, each through the end of the calendar quarter in which the termination occurs, provided, such medical benefits shall be reduced or eliminated to the extent Mr. Evans receives similar benefits from a subsequent employer.

Mr. Carstanjen and Mr. Mudd. Cash payments equal to the product of 1.5 times the sum of (a) his base salary plus (b) his target bonus for the year of termination of employment, payable in equal installments over 18 months; health and welfare benefits, each through the end of the calendar quarter in which the termination occurs, provided, such medical benefits shall be reduced or eliminated to the extent either receives similar benefits from a subsequent employer. Both will also receive accelerated vesting of any restricted stock pursuant to the terms of the applicable grant agreement.

Mr. Tse. If terminated Mr. Tse is entitled to the standard severance benefits provided to our executives under the Executive Severance Policy; and, a pro-rata annual bonus for the year payable at target.

Mr. Gay. If terminated Mr. Gay is entitled to the standard benefits provided to our executives under the Executive Severance Policy.

The Company's executive severance plan provides severance equal to four weeks of salary per year of service (up to a maximum of 52 weeks) for Executive Vice Presidents, three weeks of salary per year of service (up to a maximum of 26 weeks) for Senior Vice Presidents and two weeks of salary per year of service for Vice Presidents (up to a maximum of 26 weeks) in the case of Job Elimination. Job Elimination is the involuntary separation of an executive without cause due to elimination of an executive's position or duties due to a restructuring, cost containment, or other reasons not related to job performance. Therefore, this plan does not provide a severance payment to an executive who is terminated due to poor performance.

Change in Control Benefits. The employment agreement for Mr. Evans also provides for the following change in control provisions. Upon a change in control, as defined in his agreement, 50% of any unvested equity grants made as part of his employment agreement, as amended and restated, will vest. If Mr. Evans is terminated within two years following a change in control, he will receive severance as provided above, the vesting on the remaining unvested equity from his initial grant will be accelerated, and the Company will provide full tax gross-up payments on any excise taxes under Code Section 280G, which provides for a 20% additional tax on certain payments made upon a change in control.

Mr. Carstanjen and Mr. Mudd are also entitled, under the terms of their employment agreements, to full tax gross-up payments on any excise taxes under Code Section 280G if either of them is terminated within two years following a change in control.

The 2008-2012 LTIP and New Company LTIP, in which Mr. Carstanjen, Mr. Mudd, Mr. Gay and Mr. Tse participate, provides that one hundred percent (100%) of the earned but unvested awards under the 2008-2012 LTIP and one hundred percent (100%) of all unvested restricted stock awards under the New Company LTIP will vest if a participant is terminated within twenty-four (24) months of a change in control.

Mr. Carstanjen and Mr. Mudd have received restricted stock grants from the Company in connection with their employment agreements. Under the terms of the grant agreements entered into with Mr. Carstanjen and Mr. Mudd pursuant to the Company's 2007 Omnibus Plan, any remaining vesting on such equity grants will accelerate and the grants will vest in full upon the occurrence of both a change in control and the subsequent termination of the recipient, unless the terms of such recipient's employment agreement specify otherwise.

Equity Compensation Plan Information[1]

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders[2]	193,208[3][4]	$36.04	87,130[6]
Equity compensation plans not approved by security holders[5]	65,000	$36.16	-0-
Total	258,208	$36.07	87,130

(1) This table includes (i) aggregate data, including pricing, for shares presently committed under all equity compensation plans of the Company as of the end of the most recently completed fiscal year and (ii) aggregate data for shares still available to be issued under those plans.

(2) The equity compensation plans of the Company which have been approved by the shareholders of the Company are the Churchill Downs Incorporated 2000 Employee Stock Purchase Plan (“Stock Purchase Plan”), the Churchill Downs Incorporated 1993 Stock Option Plan (“1993 Plan”), the Churchill Downs Incorporated 1997 Stock Option Plan (“1997 Plan”), the Churchill Downs Incorporated 2003 Stock Option Plan (“2003 Plan”), the Churchill Downs Incorporated 2004 Restricted Stock Plan (“Restricted Stock Plan”) and the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan (“2007 Plan”) and certain stock options and restricted stock awards granted to the CEO as a part of his employment agreement. The 1993 Plan, the 1997 Plan and the 2003 Plan each allow one- to three-year option vesting periods and require that options expire ten (10) years after the date of grant, if not earlier under certain circumstances. The Restricted Stock Plan allows for the award of stock subject to certain conditions and restrictions as determined by the Compensation Committee at the time of the award. The 2007 Plan allows the Compensation Committee the flexibility to design compensatory awards that are responsive to the Company’s needs. Awards under the 2007 Plan may be in the form of stock options, stock appreciation rights, restricted stock, restricted share units, performance shares or performance units.

(3) Of this total, zero (0) shares of Common Stock of the Company are issuable upon the exercise of outstanding options granted under the 1997 Plan, 193,208 shares (of which 180,000 shares are tied to a grant award made to the CEO in 2010 pursuant to his employment agreement) of Common Stock of the Company are issuable upon the exercise of outstanding options granted under the 2007 Plan and zero (0) shares of Common Stock of the Company are issuable upon the exercise of outstanding options granted to the CEO of the Company as a part of his employment agreement. The total does not include 93,000 (which excludes the New Company LTIP awards) outstanding shares of Common Stock which have been awarded under the Restricted Stock Plan and the 2007 Plan, as of December 31, 2013, which are unvested and over which the participants have neither voting nor dispositive power until the lapse of the restriction period.

(4) Because each participant in the Stock Purchase Plan has one option each plan year and that option consists of the number of shares which can be purchased, through exercise, at the end of the plan year using compensation deductions made throughout the plan year, no outstanding options, warrants or rights for a specific number of the Company’s securities to be issued upon exercise existed at fiscal year’s end and, therefore, none are included in this total for the Stock Purchase Plan.

(5) As a part of his employment agreement, the CEO of the Company was granted 65,000 restricted stock units representing shares of Common Stock of the Company, which vest quarterly over a 5 year period beginning with the end of the third calendar quarter of 2006. The CEO of the Company is entitled to receive the shares underlying the restricted stock units (along with a cash payment equal to accumulated dividend equivalents beginning with the lapse of forfeiture, plus interest at a 3% annual rate) six months after termination of employment. The restricted stock units were granted to the CEO of the Company as a material inducement to enter into the employment agreement.

(6) Of this total, as of December 31, 2013, 79,718 shares of Common Stock of the Company remained available for future issuance under the Stock Purchase Plan and 7,412 shares of Common Stock of the Company remained available for future issuance under the 2007 Plan. Stock awards under the 2007 Plan, other than stock options, will be counted against the maximum number of shares as to which stock awards may be granted on a ratio of 2-to-1.

Certain Relationships and Related Transactions

The Company has adopted written policies and procedures for identifying and approving or ratifying related person transactions. The policies and procedures cover all related person transactions required to be disclosed under Item 404 (a) of Regulation S-K. The Audit Committee is responsible for applying the policies and procedures. In evaluating related person transactions, the Audit Committee considers all factors it deems appropriate, including, without limitation, whether the related person transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances, the extent of the related person's interest in the transaction, and whether products or services of a similar nature, quantity, or quality are readily available from alternative sources.

During the past fiscal year, the Company did not engage in any transactions in which any director, officer or 5% shareholder of the Company had any material interest.

Directors of the Company may from time to time own or have interests in horses racing at the Company's tracks. All such races are conducted, as applicable, under the regulations of the Kentucky Horse Racing Commission, the Illinois Racing Board, the Florida Department of Business and Professional Regulation Division of Pari-Mutuel Wagering or the Louisiana State Racing Commission, and no director receives any extra or special benefit with regard to having his or her horses selected to run in races or in connection with the actual running of races.

In its ordinary course of business, the Company may enter into transactions with certain of its officers and directors for the sale of personal seat licenses and suite accommodations at its racetracks, and tickets for its live racing events. The Company believes that each such transaction has been on terms no less favorable for the Company than could have been obtained in a transaction with a third party and no such person received any extra or special benefit in connection with such transactions.

Churchill Downs Incorporated
Audit Committee Report

The following is the report of the Company's Audit Committee (the "Committee"), which currently consists of three directors, each of whom has been determined by the Board of Directors (the "Board") to meet the current standards of the Securities and Exchange Commission and the NASDAQ exchange to be considered an "independent director." The Board has also determined that one member, Daniel P. Harrington, is an "audit committee financial expert" as defined by the Securities and Exchange Commission.

The Committee has an Audit Committee Charter (the "Charter"), which was re-approved by the Board on February 24, 2014. The Charter sets forth certain responsibilities of the Committee, which include monitoring and oversight of the financial reporting process, the system of internal controls, the internal audit function, the independent auditors, the Company's procedures for legal and regulatory compliance, and the Company's risk management practices. The Committee's job is one of oversight and the Committee reviews the work of the Company's management, the internal audit staff and the independent auditors on behalf of the Board.

Specifically, the Committee:

- Met four (4) times during the year, during which the Committee reviewed and discussed with management and the independent auditors the Company's interim and annual financial statements for 2013; at each of such meetings, the Committee met in executive session with the Company's Chief Compliance Officer.
- Discussed with the independent auditors all matters required to be discussed under Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, which sets forth required communication between independent auditors and audit committees.
- Received the written disclosures and letters from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board, regarding the independent auditors' communications with the Audit Committee concerning independence, and discussed with the independent auditors the independent auditors' independence.
- Based on the review and discussions referred to in the first three bullets above, the Committee recommended to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.
- Reviewed and discussed reports from the Company's internal audit department and reports from the Company's legal department.
- Discussed with management and the independent auditors the quality of the Company's internal controls.
- Reviewed and approved all related person transactions.
- Self-evaluated the effectiveness of the Committee.
- Evaluated the effectiveness of the Company's internal audit function.
- Inquired of management, including its internal auditor, and the Company's independent auditors regarding significant risks or exposures, including those related to fraudulent activities, facing the Company; assessed the steps management has taken or proposes to take to minimize such risks to the Company and reviewed compliance with such steps.
- Reviewed and approved the 2013 audit and non-audit services and related fees provided by the independent auditors, PricewaterhouseCoopers LLP ("PwC"). The non-audit services approved by the Audit Committee were also reviewed to ensure compatibility with maintaining the auditor's independence.
- In February 2014, the Committee selected PwC to be reappointed as independent auditors for the calendar year 2014. The Committee also reviewed and pre-approved the 2014 audit fees for services related to the first quarter Form 10-Q review.

No portion of this Audit Committee Report shall be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended (the "Securities Act"), or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), through any general statement incorporating by reference in its entirety the Proxy Statement in which this report appears, except to the extent that the Company specifically incorporates this report or a portion of it by reference. In addition, this report shall not be deemed to be filed under either the Securities Act or the Exchange Act.

Members of the Audit Committee
Daniel P. Harrington, Chairman
Leonard S. Coleman, Jr.
R. Alex Rankin
Darrell R. Wells

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that the Company's directors, executive officers and persons who beneficially own more than ten percent (10%) of the Company's Common Stock file certain reports with the Securities and Exchange Commission with regard to their beneficial ownership of the Common Stock. The Company is required to disclose in this Proxy Statement any failure to file or late filings of such reports. Based solely on our review of the forms filed with the Securities and Exchange Commission or written representations from certain reporting persons received by us, we believe that our directors, officers and persons who own more than ten percent (10%) of the Company's Common Stock have complied with all applicable filing requirements, except in the following instances: the Company filed late one Form 4 for Alan K. Tse reporting the sale of stock in accordance with an established 10b5-1 trading plan; the Company filed late one Form 4 for James E. Gay reporting the withholding of stock to satisfy tax liability; the Company filed late one Form 4 for William E. Mudd, William C. Carstanjen, James E. Gay, and Alan K. Tse reporting awards granted under the New Company LTIP; and the Company filed late one Form 4 for William E. Mudd, William C. Carstanjen, James E. Gay, and Alan K. Tse reporting awards earned under the 2008-2012 LTIP.

Multiple Shareholders Sharing the Same Address

The Securities and Exchange Commission has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process, which is commonly referred to as "house holding," potentially means extra convenience for shareholders and cost savings for companies.

At this time, one or more brokers with accountholders who are Company shareholders will be "house holding" our proxy materials. A single Proxy Statement will be delivered to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholder. Once you have received notice from your broker that they will be "house holding" communications to your address, "house holding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "house holding" and would prefer to receive a separate Proxy Statement, please notify your broker. You may direct your written request for a copy of the Proxy Statement to Churchill Downs Incorporated, Attn: Bridgett Gatewood, 600 N. Hurstbourne Parkway, Ste. 400, Louisville, Kentucky 40222, or at (502) 636-4400. If your broker is not currently "house holding" (i.e., you received multiple copies of the Company's Proxy Statement), and you would like to request delivery of a single copy, you should contact your broker.

Proposals by Shareholders

Any shareholder proposal that may be included in the Board of Directors' Proxy Statement and Proxy for presentation at the annual meeting of shareholders to be held in 2015 must be received by the Company at the principal executive office at 600 N. Hurstbourne Parkway, Ste. 400, Louisville, Kentucky 40222, Attention of the Secretary, no later than November 24, 2014. Pursuant to the Company's Amended and Restated Bylaws, proposals of shareholders intended to be presented at the Company's 2014 annual meeting of shareholders must be received by the Company at the principal executive offices of the Company not less than 90 nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of shareholders. Accordingly, any shareholder proposals intended to be presented at the 2015 annual meeting of shareholders of the Company must be received in writing by the Company at its principal executive offices no later than January 22, 2015, and no sooner than December 23, 2014. Any proposal submitted before or after those dates will be considered untimely, and the Chairman shall declare that the business is not properly brought before the meeting and such business shall not be transacted at the annual meeting.

BY ORDER OF THE BOARD OF DIRECTORS

Robert L. Evans
Chairman and Chief Executive Officer
Alan K. Tse
Executive Vice President and General Counsel

Louisville, Kentucky
March 24, 2014

PLEASE SIGN AND RETURN THE ENCLOSED PROXY
OR VOTE BY TELEPHONE OR OVER THE INTERNET
IF YOU CANNOT BE PRESENT IN PERSON

EXHIBIT A

CHURCHILL DOWNS INCORPORATED

2007 OMNIBUS STOCK INCENTIVE PLAN

(Amended and Restated as of April   , 2014)

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CHURCHILL DOWNS INCORPORATED
2007 OMNIBUS STOCK INCENTIVE PLAN

1. *Purpose.* The purpose of the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan (the "Plan") is to attract and retain employees and directors for Churchill Downs Incorporated and its Subsidiaries and to provide such persons with incentives and rewards for superior performance.

2. *Definitions*. As used in this Plan, the following terms shall be defined as set forth below:

2.1 "*Award*" means any Option, Stock Appreciation Right, Restricted Shares, Restricted Share Units, Performance Shares or Performance Units granted under the Plan.

2.2 "*Award Agreement*" means an agreement, certificate, resolution or other form of writing or other evidence approved by the Committee which sets forth the terms and conditions of an Award. An Award Agreement may be in an electronic medium, may be limited to a notation on the Company's books and records and, if approved by the Committee, need not be signed by a representative of the Company or a Participant.

2.3 "*Base Price*" means the price to be used as the basis for determining the Spread upon the exercise of a Freestanding Stock Appreciation Right. In no case shall the Base Price be less than the Fair Market Value on the Grant Date of the Freestanding Stock Appreciation Right.

2.4 "*Board*" means the Board of Directors of the Company.

2.5 "*Code*" means the Internal Revenue Code of 1986, as amended from time to time.

2.6 "*Committee*" means the committee of the Board described in Section 4.

2.7 "*Company*" means Churchill Downs Incorporated, a Kentucky corporation, or any successor corporation.

2.8 "*Deferral Period*" means the period of time during which Restricted Share Units are subject to deferral limitations under Section 8.

2.9 "*Employee*" means any person, including an officer, employed by the Company or a Subsidiary.

2.10 "*Fair Market Value*" means the closing price for the Shares on the Grant Date as reported on the Nasdaq Global Select Market or the principal securities exchange on which the Shares are listed for trading or, if there were no sales on such date, the closing price on the nearest preceding date on which sales occurred, in each case, as reported in *The Wall Street Journal* or such other source as the Committee deems reliable.

2.11 "*Freestanding Stock Appreciation Right*" means a Stock Appreciation Right granted pursuant to Section 6 that is not granted in tandem with an Option or similar right.

2.12 "*Grant Date*" means the date specified by the Committee on which a grant of an Award shall become effective, which shall not be earlier than the date on which the Committee takes action with respect thereto.

2.13 "*Incentive Stock Option*" means any Option that is intended to qualify as an "incentive stock option" under Code Section 422 or any successor provision.

2.14 "*Nonemployee Director*" means a member of the Board who is not an Employee.

2.15 "*Nonqualified Stock Option*" means an Option that is not intended to qualify as an Incentive Stock Option.

2.16 "*Option*" means any option to purchase Shares granted under Section 5.

2.17 "*Optionee*" means the person so designated in an agreement evidencing an outstanding Option.

2.18 "*Option Price*" means the purchase price payable upon the exercise of an Option. In no case shall the Option Price be less than the Fair Market Value on the Grant Date of the Option.

2.19 "*Participant*" means an Employee or Nonemployee Director who is selected by the Committee to receive benefits under this Plan, provided that only Employees shall be eligible to receive grants of Incentive Stock Options.

2.20 "*Performance Objectives*" means the performance objectives established pursuant to this Plan for Participants who have received Awards. Performance Objectives may be described in terms of Company-wide objectives or objectives that are related to the performance of the individual Participant or the Subsidiary, division, department or function within the Company or Subsidiary in which the Participant is employed. Performance Objectives may be measured on an absolute or relative basis. Relative performance may be measured by a group of peer companies or by a financial market index. Any Performance Objectives applicable to a Qualified Performance-Based Award shall be limited to specified levels of or increases in the Company's or Subsidiary's return on equity, earnings from continuing operations, earnings from continuing operations before interest and taxes, earnings per share from continuing operations before interest, taxes, depreciation and amortization (EBITDA), net earnings per share, diluted earnings per share, total earnings, earnings growth, return on capital, cost of capital, return on assets, return on investment, return on equity, net customer sales, volume, sales growth, gross profit, gross margin return on investment, share price (including but not limited to, growth measures and total stockholder return), operating profit, operating margin, net operating profit after taxes, net earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on investment (which equals net cash flow divided by total capital), financial return ratios, total return to shareholders, market share, earnings measures/ratios, economic value added (EVA), balance sheet measurements, asset growth, market share, internal rate of return, increase in net present value or expense targets, "Employer of Choice" or similar survey results, customer satisfaction surveys and productivity. If the Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the Performance Objectives unsuitable, the Committee may modify such Performance Objectives or the related minimum acceptable level of achievement, in whole or in part, as the Committee deems appropriate and equitable.

2.21 "*Performance Period*" means a period of time established under Section 9 within which the Performance Objectives relating to a Performance Share, Performance Unit, Restricted Share Units or Restricted Shares are to be achieved.

2.22 "*Performance Share*" means a bookkeeping entry that records the equivalent of one Share awarded pursuant to Section 9.

2.23 "*Performance Unit*" means a bookkeeping entry that records a unit equivalent to $1.00 awarded pursuant to Section 9.

2.24 "*Qualified Performance-Based Award*" means an Award or portion of an Award that is intended to satisfy the requirements for "qualified performance-based compensation" under Code Section 162(m). The Committee shall designate any Qualified Performance-Based Award as such at the time of grant.

2.25 "*Restricted Share Units*" means an Award pursuant to Section 8 of the right to receive Shares at the end of a specified Deferral Period.

2.26 "*Restricted Shares*" mean Shares granted under Section 7 subject to a substantial risk of forfeiture.

2.27 "*Shares*" means shares of the Common Stock of the Company, no par value, or any security into which Shares may be converted by reason of any transaction or event of the type referred to in Section 11.

2.28 "*Spread*" means, in the case of a Freestanding Stock Appreciation Right, the amount by which the Fair Market Value on the date when any such right is exercised exceeds the Base Price specified in such right or, in the case of a Tandem Stock Appreciation Right, the amount by which the Fair Market Value on the date when any such right is exercised exceeds the Option Price specified in the related Option.

2.29 "*Stock Appreciation Right*" means a right granted under Section 6, including a Freestanding Stock Appreciation Right or a Tandem Stock Appreciation Right.

2.30 "*Subsidiary*" means a corporation or other entity in which the Company has a direct or indirect ownership or other equity interest, provided that for purposes of determining whether any person may be a Participant for purposes of any grant of Incentive Stock Options, "Subsidiary" means any corporation (within the meaning of the Code) in which the Company owns or controls directly or indirectly more than 50 percent of the total combined voting power represented by all classes of stock issued by such corporation at the time of such grant.

2.31 "*Tandem Stock Appreciation Right*" means a Stock Appreciation Right granted pursuant to Section 6 that is granted in tandem with an Option or any similar right granted under any other plan of the Company.

3. *Shares Available Under the Plan*.

3.1 *Reserved Shares*. Subject to adjustment as provided in Section 11, the maximum number of Shares that may be (i) issued or transferred upon the exercise of Options or Stock Appreciation Rights, (ii) awarded as Restricted Shares and released from substantial risk of forfeiture, (iii) issued or transferred in payment of Restricted Share Units or Performance Shares, or (iv) issued or transferred in payment of dividend equivalents paid with respect to Awards, shall not in the aggregate exceed 4,430,000 Shares.

3.2 *Reduction Ratio*. For purposes of Section 3.1, each Share issued or transferred pursuant to an Award other than a Stock Option shall reduce the number of Shares available for issuance under the Plan by 2 Shares.

3.3 *ISO Maximum*. In no event shall the number of Shares issued upon the exercise of Incentive Stock Options exceed 4,430,000 Shares, subject to adjustment as provided in Section 11.

3.4 *Maximum Calendar Year Award*. No Participant may receive Awards representing more than 300,000 Shares in any one calendar year, subject to adjustment as provided in Section 11. In addition, the maximum number of Performance Units that may be granted to a Participant in any one calendar year is 7,500,000.

3.5 *Forfeited Shares*. If Awards are forfeited or terminated for any reason before being exercised, fully vested, or settled, then the Shares underlying those Awards will cease to count against the limitations in Sections 3.1 and 3.3 and will become available for Awards under the Plan.

3.6 *Shares for Withholding Obligations*. Any Shares subject to any award that are withheld or otherwise not issued upon exercise of any Award to satisfy the Participant's withholding obligations or in payment of any subscription price or the Exercise Price, and Shares subject to an Award (or any portion of an Award) that is settled in cash in lieu of settlement in Shares, will reduce the number of Shares available for grant under the limitations in Sections 3.1 and 3.3.

3.7 *Awards Settled in Cash*. Awards valued by reference to Shares that may be settled in equivalent cash value will count against the limitations in this Section 3 to the same extent as if settled in Shares.

4. *Plan Administration*.

4.1 *Board Committee Administration*. This Plan shall be administered by a Committee appointed by the Board from among its members, provided that the full Board may at any time act as the Committee. The interpretation and construction by the Committee of any provision of this Plan or of any Award Agreement and any determination by the Committee pursuant to any provision of this Plan or any such agreement, notification or document, shall be final and conclusive. No member of the Committee shall be liable to any person for any such action taken or determination made in good faith.

4.2 *Committee Delegation*. The Committee may delegate to one or more officers of the Company the authority to grant Awards to Participants who are not directors or executive officers of the Company, provided that the Committee shall have fixed the total number of shares of Stock subject to such grants. Any such delegation shall be subject to the limitations of the Kentucky Business Corporation Act.

5. *Options*. The Committee may from time to time authorize grants to Participants of options to purchase Shares upon such terms and conditions as the Committee may determine in accordance with the following provisions:

5.1 *Number of Shares*. Each grant shall specify the number of Shares to which it pertains.

5.2 *Option Price*. Each grant shall specify an Option Price per Share, which shall be equal to or greater than the Fair Market Value per Share on the Grant Date.

5.3 *Consideration*. Each grant shall specify the form of consideration to be paid in satisfaction of the Option Price and the manner of payment of such consideration, which may include (i) cash in the form of currency or check or other cash equivalent acceptable to the Company, (ii) nonforfeitable, unrestricted Shares owned by the Optionee which have a value at the time of exercise that is equal to the Option Price, (iii) any other legal consideration that the Committee may deem appropriate, including without limitation any form of consideration authorized under Section 5.4, on such basis as the Committee may determine in accordance with this Plan, or (iv) any combination of the foregoing.

5.4 *Cashless Exercise*. To the extent permitted by applicable law, any grant may provide for payment of the Option Price in whole or in part by delivery (on a form prescribed by the Committee) of an irrevocable direction to a securities broker to sell Shares and delivery all or part of the sales proceeds to the Company in payment of the Option Price and, if applicable, the amount necessary to satisfy the Company's withholding obligations at the minimum statutory withholding rates, including, but not limited to, U.S. Federal and state income taxes, payroll taxes and foreign taxes, if applicable.

5.5 *Performance-Based Options*. Any grant of an Option may specify Performance Objectives that must be achieved as a condition to exercise of the Option.

5.6 *Vesting*. Each Option grant may specify a period of continuous employment of the Optionee by the Company or any Subsidiary (or, in the case of a Nonemployee Director, service on the Board) that is necessary before the Options or installments thereof shall become exercisable, and any grant may provide for the earlier exercise of such rights in the event of a change in control of the Company or other similar transaction or event.

5.7 *ISO Dollar Limitation*. Options granted under this Plan may be Incentive Stock Options, Nonqualified Stock Options or a combination of the foregoing, provided that only Nonqualified Stock Options may be granted to Nonemployee Directors. Each grant shall specify whether (or the extent to which) the Option is an Incentive Stock Option or a Nonqualified Stock Option. Notwithstanding any such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by an Optionee during any calendar year (under all plans of the Company) exceeds $100,000, such Options shall be treated as Nonqualified Stock Options.

5.8 *Exercise Period*. No Option granted under this Plan may be exercised more than ten years from the Grant Date.

5.9 *Award Agreement*. Each grant shall be evidenced by an Award Agreement containing such terms and provisions as the Committee may determine consistent with this Plan.

6. *Stock Appreciation Rights*. The Committee may also authorize grants to Participants of Stock Appreciation Rights. A Stock Appreciation Right is the right of the Participant to receive from the Company an amount, which shall be determined by the Committee and shall be expressed as a percentage (not exceeding 100 percent) of the Spread at the time of the exercise of such right. Any grant of Stock Appreciation Rights under this Plan shall be upon such terms and conditions as the Committee may determine in accordance with the following provisions:

6.1 *Payment in Cash or Shares*. Any grant may specify that the amount payable upon the exercise of a Stock Appreciation Right may be paid by the Company in cash, Shares or any combination thereof as specified in the Award agreement and may (i) either grant to the Participant or reserve to the Committee the right to elect among those alternatives or (ii) preclude the right of the Participant to receive and the Company to issue Shares or other equity securities in lieu of cash.

6.2 *Maximum SAR Payment*. Any grant may specify that the amount payable upon the exercise of a Stock Appreciation Right shall not exceed a maximum specified by the Committee on the Grant Date.

6.3 *Exercise Period*. Any grant may specify (i) a waiting period or periods before Stock Appreciation Rights shall become exercisable and (ii) permissible dates or periods on or during which Stock Appreciation Rights shall be exercisable.

6.4 *Change in Control*. Any grant may specify that a Stock Appreciation Right may be exercised only in the event of a change in control of the Company or other similar transaction or event.

6.5 *Dividend Equivalents*. Dividend Equivalents will not be permitted on appreciation awards (e.g., Stock Appreciation Rights and Options).

6.6 *Vesting*. Any grant may specify a period of continuous employment of the Participant by the Company or any Subsidiary (or, in the case of a Nonemployee Director, service on the Board) that is necessary before the Stock Appreciation Rights or installments thereof shall become exercisable, and any grant may provide for the earlier exercise of such rights in the event of a change in control of the Company or other similar transaction or event.

6.7 *Award Agreement*. Each grant shall be evidenced by an Award Agreement which shall describe the subject Stock Appreciation Rights, identify any related Options, state that the Stock Appreciation Rights are subject to all of the terms and conditions of this Plan and contain such other terms and provisions as the Committee may determine consistent with this Plan.

6.8 *Tandem Stock Appreciation Rights*. Each grant of a Tandem Stock Appreciation Right shall provide that such Tandem Stock Appreciation Right may be exercised only (i) at a time when the related Option (or any similar right granted under any other plan of the Company) is also exercisable and the Spread is positive; and (ii) by surrender of the related Option (or such other right) for cancellation.

6.9 *Exercise Period.* No Stock Appreciation Right granted under this Plan may be exercised more than ten years from the Grant Date.

6.10 Freestanding Stock Appreciation Rights. Regarding Freestanding Stock Appreciation Rights only:

(i) Each grant shall specify in respect of each Freestanding Stock Appreciation Right a Base Price per Share, which shall be equal to or greater than the Fair Market Value on the Grant Date;

(ii) Successive grants may be made to the same Participant regardless of whether any Freestanding Stock Appreciation Rights previously granted to such Participant remain unexercised; and

(iii) Each grant shall specify the period or periods of continuous employment of the Participant by the Company or any Subsidiary that are necessary before the Freestanding Stock Appreciation Rights or installments thereof shall become exercisable, and any grant may provide for the earlier exercise of such rights in the event of a change in control of the Company or other similar transaction or event.

7. *Restricted Shares*. The Committee may also authorize grants to Participants of Restricted Shares upon such terms and conditions as the Committee may determine in accordance with the following provisions:

7.1 *Transfer of Shares*. Each grant shall constitute an immediate transfer of the ownership of Shares to the Participant in consideration of the performance of services, subject to the substantial risk of forfeiture and restrictions on transfer hereinafter referred to.

7.2 *Substantial Risk of Forfeiture.* Each grant shall provide that the Restricted Shares covered thereby shall be subject to a "substantial risk of forfeiture" within the meaning of Code Section 83 for a period to be determined by the Committee on the Grant Date, and any grant or sale may provide for the earlier termination of such risk of forfeiture in the event of a change in control of the Company or other similar transaction or event.

7.3 *Dividends, Voting and Other Ownership Rights.* Unless otherwise determined by the Committee, an award of Restricted Shares shall entitle the Participant to dividend, voting and other ownership rights during the period for which such substantial risk of forfeiture is to continue.

7.4 Restrictions on Transfer. Each grant shall provide that, during the period for which such substantial risk of forfeiture is to continue, the transferability of the Restricted Shares shall be prohibited or restricted in the manner and to the extent prescribed by the Committee on the Grant Date. Such restrictions may include, without limitation, rights of repurchase or first refusal in the Company or provisions subjecting the Restricted Shares to a continuing substantial risk of forfeiture in the hands of any transferee.

7.5 *Performance-Based Restricted Shares.* Any grant or the vesting thereof may be further conditioned upon the attainment of Performance Objectives established by the Committee in accordance with the applicable provisions of Section 9 regarding Performance Shares and Performance Units.

7.6 *Dividends*. Any grant may require that any or all dividends or other distributions paid on the Restricted Shares during the period of such restrictions (i) be automatically sequestered by the Company or (ii) be automatically sequestered and reinvested on an immediate or deferred basis in additional Shares, which may be subject to the same restrictions as the underlying Award or such other restrictions as the Committee may determine.

7.7 *Award Agreements.* Each grant shall be evidenced by an Award Agreement containing such terms and provisions as the Committee may determine consistent with this Plan. Unless otherwise directed by the Committee, all certificates representing Restricted Shares, together with a stock power that shall be endorsed in blank by the Participant with respect to such Shares, shall be held in custody by the Company until all restrictions thereon lapse.

8. *Restricted Share Units.* The Committee may authorize grants of Restricted Share Units to Participants upon such terms and conditions as the Committee may determine in accordance with the following provisions:

8.1 *Deferred Compensation.* Each grant shall constitute the agreement by the Company to issue or transfer Shares to the Participant in the future in consideration of the performance of services, subject to the fulfillment during the Deferral Period of such conditions as the Committee may specify. Such conditions shall include Participant's continued employment with the Company during the Deferral Period.

8.2 *Deferral Period.* Each grant shall provide that the Restricted Share Units covered thereby shall be subject to a Deferral Period, which shall be fixed by the Committee on the Grant Date, and any grant or sale may provide for the earlier termination of such period in the event of a change in control of the Company or other similar transaction or event.

8.3 *Dividend Equivalents and Other Ownership Rights*. During the Deferral Period, the Participant shall not have any right to transfer any rights under the subject Award, shall not have any rights of ownership in the Restricted Share Units and shall not have any right to vote such shares, but the Committee may on or after the Grant Date authorize the payment of dividend equivalents on such shares in cash or additional Shares on a current, deferred or contingent basis.

8.4 *Performance Objectives*. Any grant or the vesting thereof may be further conditioned upon the attainment of Performance Objectives established by the Committee in accordance with the applicable provisions of Section 9 regarding Performance Shares and Performance Units.

8.5 *Award Agreement.* Each grant shall be evidenced by an Award Agreement containing such terms and provisions as the Committee may determine consistent with this Plan.

9. *Performance Shares and Performance Units*. The Committee may also authorize grants of Performance Shares and Performance Units, which shall become payable to the Participant upon the achievement of specified Performance Objectives, upon such terms and conditions as the Committee may determine in accordance with the following provisions:

9.1 *Number of Performance Shares or Units* Each grant shall specify the number of Performance Shares or Performance Units to which it pertains.

9.2 *Performance Period.* The Performance Period with respect to each Performance Share or Performance Unit shall commence on the Grant Date or such other date as the Committee determines and may be subject to earlier termination in the event of a change in control of the Company or other similar transaction or event.

9.3 *Performance Objectives*. Each grant shall specify the Performance Objectives that are to be achieved by the Participant.

9.4 *Threshold Performance Objectives*. Each grant may specify in respect of the specified Performance Objectives a minimum acceptable level of achievement below which no payment will be made and may set forth a formula for determining the amount of any payment to be made if performance is at or above such minimum acceptable level but falls short of the maximum achievement of the specified Performance Objectives.

9.5 *Payment of Performance Shares and Units.* Each grant shall specify the time and manner of payment of Performance Shares or Performance Units that shall have been earned, and any grant may specify that any such amount may be paid by the Company in cash, Shares or any combination thereof as specified in the Award agreement and may either grant to the Participant or reserve to the Committee the right to elect among those alternatives.

9.6 *Maximum Payment.* Any grant of Performance Shares may specify that the amount payable with respect thereto may not exceed a maximum specified by the Committee on the Grant Date. Any grant of Performance Units may specify that the amount payable, or the number of Shares issued, with respect thereto may not exceed maximums specified by the Committee on the Grant Date.

9.7 *Dividend Equivalents.* Any grant of Performance Shares may provide for the payment to the Participant of dividend equivalents thereon in cash or additional Shares on a current, deferred or contingent basis.

9.8 *Adjustment of Performance Objectives.* If provided in the terms of the grant, the Committee may adjust Performance Objectives and the related minimum acceptable level of achievement if, in the sole judgment of the Committee, events or transactions have occurred after the Grant Date that are unrelated to the performance of the Participant and result in distortion of the Performance Objectives or the related minimum acceptable level of achievement.

9.9 *Award Agreement.* Each grant shall be evidenced by an Award Agreement which shall state that the Performance Shares or Performance Units are subject to all of the terms and conditions of this Plan and such other terms and provisions as the Committee may determine consistent with this Plan.

10. *Transferability*.

10.1 *Transfer Restrictions.* Except as provided in Section 10.2, no Award granted under this Plan shall be transferable by a Participant other than by will or the laws of descent and distribution, and Options and Stock Appreciation Rights shall be exercisable during a Participant's lifetime only by the Participant or, in the event of the Participant's legal incapacity, by his guardian or legal representative acting in a fiduciary capacity on behalf of the Participant under state law. Any attempt to transfer an Award in violation of this Plan shall render such Award null and void.

10.2 *Limited Transfer Rights*. The Committee may expressly provide in an Award agreement (or an amendment to an Award agreement) that a Participant may transfer such Award (other than an Incentive Stock Option), in whole or in part, to a spouse or lineal descendant (a "Family Member"), a trust for the exclusive benefit of Family Members, a partnership or other entity in which all the beneficial owners are Family Members, or any other entity affiliated with the Participant that may be approved by the Committee. Subsequent transfers of Awards shall be prohibited except in accordance with this Section 10.2. All terms and conditions of the Award, including provisions relating to the termination of the Participant's employment or service with the Company or a Subsidiary, shall continue to apply following a transfer made in accordance with this Section 10.2.

10.3 *Restrictions on Transfer*. Any Award made under this Plan may provide that all or any part of the Shares that are (i) to be issued or transferred by the Company upon the exercise of Options or Stock Appreciation Rights, upon the termination of the Deferral Period applicable to Restricted Share Units or upon payment under any grant of Performance Shares or Performance Units, or (ii) no longer subject to the substantial risk of forfeiture and restrictions on transfer referred to in Section 7, shall be subject to further restrictions upon transfer.

11. *Adjustments*. The Committee may make or provide for such adjustments in the (a) number of Shares covered by outstanding Options, Stock Appreciation Rights, Restricted Share Units, Restricted Shares and Performance Shares granted hereunder, (b) prices per share applicable to such Options and Stock Appreciation Rights, and (c) kind of shares covered thereby (including shares of another issuer), as the Committee in its sole discretion may in good faith determine to be equitably required in order to prevent dilution or enlargement of the rights of Participants that otherwise would result from (x) any stock dividend, stock split, combination or exchange of Shares, recapitalization or other change in the capital structure of the Company, (y) any merger, consolidation, spin-off, spin-out, split-off, split-up, reorganization, partial or complete liquidation or other distribution of assets (other than a normal cash dividend), issuance of rights or warrants to purchase securities or (z) any other corporate transaction or event having an effect similar to any of the foregoing. Moreover, in the

event of any such transaction or event, the Committee may provide in substitution for any or all outstanding Awards under this Plan such alternative consideration as it may in good faith determine to be equitable under the circumstances and may require in connection therewith the surrender of all Awards so replaced. The Committee may also make or provide for such adjustments in each of the limitations specified in Section 3 as the Committee in its sole discretion may in good faith determine to be appropriate in order to reflect any transaction or event described in this Section 11.

12. *Fractional Shares*. The Company shall not be required to issue any fractional Shares pursuant to this Plan. The Committee may provide for the elimination of fractions or for the settlement thereof in cash.

13. *Withholding Taxes.* To the extent that the Company is required to withhold federal, state, local or foreign taxes in connection with any payment made or benefit realized by a Participant or other person under this Plan, it shall be a condition to the receipt of such payment or the realization of such benefit that the Participant or such other person make arrangements satisfactory to the Company for payment of all such taxes required to be withheld. At the discretion of the Committee, such arrangements may include relinquishment of a portion of such benefit.

14. *Certain Terminations of Employment, Hardship and Approved Leaves of Absence.* Notwithstanding any other provision of this Plan to the contrary, in the event of termination of employment by reason of death, disability, normal retirement, early retirement with the consent of the Company or leave of absence approved by the Company, or in the event of hardship or other special circumstances, of a Participant who holds an Option or Stock Appreciation Right that is not immediately and fully exercisable, any Restricted Shares as to which the substantial risk of forfeiture or the prohibition or restriction on transfer has not lapsed, any Restricted Share Units as to which the Deferral Period is not complete, any Performance Shares or Performance Units that have not been fully earned, or any Shares that are subject to any transfer restriction pursuant to Section 10.3, the Committee may in its sole discretion take any action that it deems to be equitable under the circumstances or in the best interests of the Company, including, without limitation, waiving or modifying any limitation or requirement with respect to any Award under this Plan.

15. *Foreign Participants.* In order to facilitate the making of any grant or combination of grants under this Plan, the Committee may provide for such special terms for Awards to Participants who are foreign nationals, or who are employed by or perform services for the Company or any Subsidiary outside of the United States of America, as the Committee may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements or alternative versions of, this Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of this Plan as in effect for any other purpose, provided that no such supplements, amendments, restatements or alternative versions shall include any provisions that are inconsistent with the terms of this Plan, as then in effect, unless this Plan could have been amended to eliminate such inconsistency without further approval by the stockholders of the Company.

16. *Amendments and Other Matters*.

16.1 *Plan Amendments.* This Plan may be amended from time to time by the Board, but no such amendment shall increase any of the limitations specified in Section 3, other than to reflect an adjustment made in accordance with Section 11, without the further approval of the stockholders of the Company. The Board may condition any amendment on the approval of the stockholders of the Company if such approval is necessary or deemed advisable with respect to the applicable listing or other requirements of a national securities exchange or other applicable laws, policies or regulations.

16.2 *Award Deferrals.* The Committee may permit Participants to elect to defer the issuance of Shares or the settlement of Awards in cash under the Plan pursuant to such rules, procedures or programs as it may establish for purposes of this Plan. In the case of an award of Restricted Shares, the deferral may be effected by the Participant's agreement to forego or exchange his or her award of Restricted Shares and receive an award of Restricted Share Units. The Committee also may provide that deferred settlements include the payment or crediting of interest on the deferral amounts, or the payment or crediting of dividend equivalents where the deferral amounts are denominated in Shares.

16.3 *Conditional Awards*. The Committee may condition the grant of any award or combination of Awards under the Plan on the surrender or deferral by the Participant of his or her right to receive a cash bonus or other compensation otherwise payable by the Company or any Subsidiary to the Participant.

16.4 *Repricing Prohibited*. The Committee shall not reprice any outstanding Option or Stock Appreciation Right, directly or indirectly, without the approval of the stockholders of the Company, provided that nothing herein shall prevent the Committee from taking any action provided for in Section 11.

16.5 *No Employment Right.* This Plan shall not confer upon any Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary and shall not interfere in any way with any right that the Company or any Subsidiary would otherwise have to terminate any Participant's employment or other service at any time.

16.6 *Tax Qualification*. To the extent that any provision of this Plan would prevent any Option that was intended to qualify under particular provisions of the Code from so qualifying, such provision of this Plan shall be null and void with respect to such Option, provided that such provision shall remain in effect with respect to other Options, and there shall be no further effect on any provision of this Plan.

16.7 *Section 409A*. It is intended that the terms of the Plan and Award Agreements hereunder will not result in the imposition of any tax liability pursuant to Section 409A of the Code. The Plan and Award Agreements hereunder shall be construed and interpreted consistent with this intent.

17. *Effective Date.* This Plan shall become effective upon its approval by the stockholders of the Company.

18. *Termination*. This Plan shall terminate on the tenth anniversary of the date upon which it is approved by the stockholders of the Company, and no Award shall be granted after that date.

19. *Governing Law*. The validity, construction and effect of this Plan and any Award hereunder will be determined in accordance with the laws of the Commonwealth of Kentucky.

Executed as of this ______ day of ______, 2014.

CHURCHILL DOWNS INCORPORATED

By: ________________________________

Title: ________________________________

CHURCHILL DOWNS INCORPORATED

2013 ANNUAL REPORT TO SHAREHOLDERS

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from ______ to ______

Commission file number 001-33998

CHURCHILL DOWNS
INCORPORATED

(Exact name of registrant as specified in its charter)

Kentucky	**61-0156015**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
600 North Hurstbourne Parkway, Suite 400 **Louisville, Kentucky 40222**	**(502) 636-4400**
(Address of principal executive offices) (zip code)	**(Registrant's telephone number, including area code)**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, No Par Value	**The NASDAQ Stock Market LLC**
(Title of each class registered)	**(Name of each exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of February 21, 2014, 17,944,490 shares of the Registrant's Common Stock were outstanding. As of June 30, 2013 (based upon the closing sale price for such date on the NASDAQ Global Market), the aggregate market value of the shares held by non-affiliates of the Registrant was $1,095,622,642.

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held on April 22, 2014 are incorporated by reference herein in response to Items 10, 11, 12, 13 and 14 of Part III of Form 10-K. The exhibit index is located on pages 111-114.

CHURCHILL DOWNS INCORPORATED
INDEX TO ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2013

PART I

ITEM 1. BUSINESS

A. Introduction

Churchill Downs Incorporated (the "Company") is a diversified provider of pari-mutuel horseracing, casino gaming, entertainment, and is the country's premier source of online account wagering on horseracing events. We offer gaming products through our casinos in Mississippi, our slot and video poker operations in Louisiana, our slot and poker operations in Florida, our slot and table games operations in Maine and our video lottery terminal joint venture facility in Ohio. We were organized as a Kentucky corporation in 1928. Our principal executive offices are located at 600 North Hurstbourne Parkway, Suite 400, Louisville, Kentucky, 40222.

We manage our operations through four operating segments as follows:

1. Racing Operations, which includes:
   - Churchill Downs Racetrack ("Churchill Downs") in Louisville, Kentucky, an internationally known thoroughbred racing operation and home of the Kentucky Derby since 1875;
   - Arlington International Race Course ("Arlington"), a thoroughbred racing operation in Arlington Heights along with eleven off-track betting facilities ("OTBs") in Illinois;
   - Calder Race Course ("Calder"), a thoroughbred racing operation in Miami Gardens, Florida; and
   - Fair Grounds Race Course ("Fair Grounds"), a thoroughbred racing operation in New Orleans along with twelve OTBs in Louisiana.
2. Gaming, which includes:
   - Oxford Casino ("Oxford") in Oxford, Maine, which we acquired on July 17, 2013. Oxford operates approximately 850 slot machines, 26 table games and various dining facilities;
   - Riverwalk Casino Hotel ("Riverwalk") in Vicksburg, Mississippi, which we acquired on October 23, 2012. Riverwalk operates approximately 710 slot machines, 22 table games, a five story, 80-room attached hotel, multi-functional event center and dining facilities;
   - Harlow's Casino Resort & Spa ("Harlow's") in Greenville, Mississippi, which operates approximately 750 slot machines, 13 table games, a five-story, 105-room attached hotel, multi-functional event center, pool, spa and dining facilities;
   - Calder Casino, a slot facility in Florida adjacent to Calder, which operates approximately 1,140 slot machines and includes a poker room operation branded "Studz Poker Club";
   - Fair Grounds Slots, a slot facility in Louisiana adjacent to Fair Grounds, which operates approximately 620 slot machines; and
   - Video Services, LLC ("VSI"), the owner and operator of approximately 780 video poker machines in Louisiana.
3. Online Business, which includes:
   - TwinSpires, an Advance Deposit Wagering ("ADW") business that is licensed as a multi-jurisdictional simulcasting and interactive wagering hub in the state of Oregon;
   - Fair Grounds Account Wagering ("FAW"), an ADW business that is licensed in the state of Louisiana;
   - Velocity, a business that is licensed in the British Dependency Isle of Man focusing on high wagering-volume international customers;
   - Luckity, an ADW business launched during October 2012 that offers real-money bingo with outcomes based on and determined by pari-mutuel wagers on live horseraces;
   - Bloodstock Research Information Services ("BRIS"), a data service provider for the equine industry; and
   - Our equity investment in HRTV, LLC ("HRTV"), a horseracing television channel.
4. Other Investments, which includes:
   - United Tote Company and United Tote Canada (collectively "United Tote"), which manufactures and operates pari-mutuel wagering systems for racetracks, OTBs and other pari-mutuel wagering businesses;

- Bluff Media ("Bluff"), a multimedia poker content brand and publishing company, acquired by the Company on February 10, 2012;
- Our equity investment in Miami Valley Gaming & Racing, LLC ("MVG"), a 50% joint venture harness racetrack and video lottery terminal facility in Lebanon, Ohio, which opened December 12, 2013. MVG has 1,600 video lottery machines; and
- Our other minor investments.

B. Acquisition, Development & Disposal Activity

Oxford

On July 17, 2013, the Company completed its acquisition of Oxford in Oxford, Maine for cash consideration of approximately $168.6 million. The transaction included the acquisition of a 25,000-square-foot casino with various dining facilities on approximately 130 acres of land. The acquisition continued the Company's diversification and growth strategies to invest in assets with rates of returns attractive to the Company's shareholders. The Company financed the acquisition with borrowings under its senior secured credit facility. During December 2013, Oxford continued an expansion of its facilities, adding an additional 46 slot machines and four table games. An additional twelve slot machines will be added to the facilities during 2014.

Riverwalk

On October 23, 2012, we completed our acquisition of Riverwalk in Vicksburg, Mississippi for cash consideration of approximately $145.6 million. The transaction includes the acquisition of a 25,000-square-foot casino, an 80-room hotel, a 5,600-square-foot event center and dining facilities on approximately 22 acres of land.

Miami Valley Gaming & Racing Joint Venture

During March 2012, the Company entered into a 50% joint venture with Delaware North Companies Gaming & Entertainment Inc. (“DNC”) to develop a new harness racetrack and video lottery terminal (“VLT”) gaming facility in Lebanon, Ohio.

Through the joint venture agreement, the Company and DNC formed a new company, MVG, which will manage both the Company’s and DNC’s interests in the development and operation of the racetrack and VLT gaming facility. During the years ended December 31, 2013 and 2012, the Company funded $70.5 million and $19.9 million in initial capital contributions to the joint venture, respectively. The Company anticipates providing funding of $24.0 million to MVG during 2014. On December 21, 2012, MVG completed the purchase of the harness racing licenses and certain assets held by Lebanon Trotting Club Inc. and Miami Valley Trotting Inc. for total consideration of $60.0 million, of which $10.0 million was funded at closing with the remainder funded through a $50.0 million note payable with a six year term effective upon the commencement of gaming operations. In addition, there is a potential contingent consideration payment of $10.0 million based on the financial performance of the facility during the seven year period after gaming operations commence.

Construction began in December 2012 on the new gaming and racing facility in Lebanon, Ohio on a 120-acre site. On December 12, 2013, MVG commenced operations at the new facility. The new facility features 1,600 video lottery terminals, a racing simulcast center, and a 5/8-mile harness racetrack which can accommodate more than 1,000 harness-racing fans in an indoor grandstand. MVG has invested approximately $212.0 million in the new facility, which includes a $50.0 million license fee payable to the Ohio Lottery Commission.

Bluff

Bluff, which was acquired in February 2012, operates a poker periodical, *BLUFF Magazine* and *BluffMagazine.com*; ThePokerDB, a comprehensive online database and resource that tracks and ranks the performance of poker players and tournaments; and various other news and content forums. On December 18, 2013, we completed the sale of 100% of the assets of Fight! Magazine ("Fight"), a division of Bluff.

Kentucky Off-Track Betting, LLC

Kentucky Off-Track Betting, LLC ("KOTB") owned and operated facilities for the simulcasting of races and the acceptance of wagers on such races at Kentucky locations other than a racetrack. OTBs developed by KOTB provided additional markets for the intrastate simulcasting of and wagering on Churchill Downs’ live races and interstate simulcasting of and wagering on out-of-state signals. We held a 25% ownership stake in KOTB, which ceased operations during June 2013. KOTB did not contribute significantly to our operations and its closure did not have a material impact on our results of operation.

C. Live Racing

We conduct live horseracing at Churchill Downs, Calder, Fair Grounds and Arlington. The following is a summary of our significant live racing events, a description of our properties and our annual racing calendar.

The Kentucky Derby and the Kentucky Oaks, both held at Churchill Downs, continue to be our premier racing events offering minimum purses of $2.0 million and $1.0 million, respectively. The Kentucky Derby is the first race of the annual series of races for 3-year old thoroughbreds, known as the Triple Crown. Our other significant stakes races include the Summit of Speed at Calder, the Arlington Million at Arlington, and the Louisiana Derby at Fair Grounds, each of which offers purses of approximately $1.0 million.

Churchill Downs

The Churchill Downs racetrack site and improvements (the "Churchill facility") are located in Louisville, Kentucky. Churchill Downs has conducted thoroughbred racing continuously since 1875 and is internationally known as the home of the Kentucky Derby. The Churchill facility consists of approximately 147 acres of land with a one-mile dirt track, a seven-eighths (7/8) mile turf track, permanent grandstands, luxury suites and a stabling area. The Churchill facility accommodates approximately 55,600 persons in our clubhouse, grandstand, Jockey Club Suites, Finish Line Suites, and Mansion. The facility also includes a simulcast wagering facility designed to accommodate 1,500 persons, a general admissions area, and food and beverage facilities ranging from concessions to full-service restaurants. The Churchill facility also has a saddling paddock, accommodations for groups and special events, parking areas for the public, our racetrack office facilities, and includes permanent lighting in order to accommodate night races. The stable area has barns sufficient to accommodate approximately 1,400 horses, a 114-room dormitory and other facilities for backstretch personnel. During January 2013, the facility opened a new simulcast wagering facility, "The Parlay", designed to accommodate 600 persons, which is Churchill Downs' simulcast wagering facility during the months outside of its live racing meets and houses the track's media operations in the weeks leading up to the Kentucky Derby. The facility also opened a new hospitality venue, "The Mansion", during the second quarter of 2013. The Mansion, located on the sixth floor of the Clubhouse, is used primarily during the Kentucky Derby and Kentucky Oaks. The Mansion has accommodations for 296 guests and offers settings in its Dining Room, Living Room, Library, Parlor and Veranda. During the second quarter of 2014, the Churchill facility is expected to open the Grandstand Terrace and Rooftop Garden. This new area will offer nearly 2,400 new seats, and it will expand and update the restrooms, wagering windows and food and beverage offerings. Additionally, during the second quarter of 2014, the Churchill facility expects to complete the installation of a 15,224 square foot, state of the art high-definition video board, which will provide an enhanced viewing experience for patrons.

To supplement the facilities at Churchill Downs, we provide additional stabling facilities sufficient to accommodate 500 horses and a three-quarter (3/4) mile dirt track, which is used for training thoroughbreds, at a training facility also located in Louisville. Referred to as Trackside Louisville, this facility provides a base of operation for many horsemen between the Spring and Fall meets and enables us to attract new horsemen to race at Churchill Downs. Trackside Louisville is not open to stabling during the winter months.

As part of financing improvements to the Churchill facility, during 2002, we transferred title of the Churchill facility to the City of Louisville, Kentucky and leased back the facility. Subject to the terms of the lease, we can re-acquire the facility at any time for $1.00.

Calder

The Calder racetrack and improvements (the "Calder facility") are located in Miami-Dade County, Florida. The Calder facility is adjacent to Sun Life Stadium, home of the Miami Dolphins, and consists of approximately 231 acres of land with a one-mile dirt track, a seven-eighths (7/8) mile turf track, a training area with a five-eighths (5/8) mile training track, permanent grandstands and a stabling area. The Calder facility includes clubhouse and grandstand seating for approximately 15,000 persons, a general admissions area and food and beverage facilities ranging from concessions to a buffet dining area. The stable area consists of a receiving barn, feed rooms, tack rooms, detention barns and living quarters and can accommodate approximately 1,800 horses. The Calder facility also features a saddling paddock, parking areas for the public and office facilities.

Fair Grounds

The Fair Grounds racetrack facility, located in New Orleans, Louisiana, consists of approximately 145 acres of land, a one-mile dirt track, a seven-eighths (7/8) mile turf track, permanent grandstands and a stabling area. The facility includes clubhouse and grandstand seating for approximately 5,000 persons, a general admissions area and food and beverage facilities ranging from concessions to clubhouse dining. The stable area consists of a receiving barn, feed rooms, tack rooms, detention barns and living quarters that can accommodate 132 persons and approximately 2,000 horses. The Fair Grounds facility also features a saddling paddock, parking areas and office facilities.

Arlington

The Arlington racetrack, located in Arlington Heights, Illinois, was constructed in 1927 and reopened its doors in 1989 after a devastating fire four years earlier. The racetrack sits on 336 acres, has a one and one-eighth (1 1/8) mile synthetic track, a one-mile turf track and a five-eighths (5/8) mile training track. The facility includes a permanent clubhouse, grandstand and suite seating for 6,045 persons and food and beverage facilities ranging from fast food to full-service restaurants. The stable area has 34 barns able to accommodate approximately 2,200 horses and a temporary housing unit that accommodates 288 persons. The Arlington facility also features a saddling paddock, parking areas and office facilities.

Racing Calendar

The following table is a summary of our expected 2014 and actual 2013 live thoroughbred racing dates and the number of live racing days for each of our four racetracks. Racing dates are generally approved annually by the respective state racing authorities:

	2014		2013	
Racetrack	**Racing Dates**	**# of Days**	**Racing Dates**	**# of Days**
Churchill Downs				
Spring Meet	April 26 - June 29	38	April 27 - June 30	38
September Meet	Sept. 4 - Sept 28	12	Sept. 5 - 29	12
Fall Meet	Oct. 26 - Nov. 30	26	Oct. 27 - Nov. 30	25
		76		75
Calder Race Course				
Calder Meet	Jan. 1 - Aug. 31	119	April 6- Aug. 31	76
Tropical Meet	Sept. 1 - Dec. 31	40	Sept. 1 - Dec. 31	53
		159		129
Arlington	May 2 - Sept. 28	89	May 1 - Sept. 30	89
Fair Grounds				
Winter Meet 12/13			Jan. 1 - Mar. 31	56
Winter Meet 13/14	Jan. 1 - Mar. 30	59	Nov. 22 - Dec. 31	25
Winter Meet 14/15	Nov. 20 - Dec. 31	26		
		85		81
Total thoroughbred race dates		409		374

During 2014, MVG expects to conduct 66 days of live harness racing during the months of February through May.

D. Simulcast Operations

We generate a significant portion of our pari-mutuel wagering revenues by sending signals of races from our racetracks to other facilities and businesses ("export") and receiving signals from other racetracks ("import"). Revenues are earned through pari-mutuel wagering on signals that we both import and export.

Arlington conducts on-site simulcast wagering only during live racing meets, while Churchill Downs, Calder and Fair Grounds offer year-round simulcast wagering at the racetracks. The OTBs located in Illinois and Louisiana conduct simulcast wagering year-round.

Off-Track Betting Facilities

Eleven of our OTBs are collectively branded "Trackside" to create a common identity for our OTB operations. Trackside Louisville ceased operating as a simulcast wagering facility during 2013. Historically, Trackside Louisville opened as a simulcasting wagering facility on big event days such as the Kentucky Derby and the Kentucky Oaks and during days the Churchill facility was being prepared for special events. It is an extension of Churchill Downs and is located approximately five miles from the Churchill facility. This 100,000 square-foot property, on approximately 88 acres of land, is a thoroughbred training and stabling annex and will operate only as such going forward. It previously also had audio visual capabilities for pari-mutuel wagering, seating for approximately 3,000 persons, parking, and related facilities for simulcasting races. The Company is currently assessing other opportunities for use of this property and during 2012, we reviewed the useful lives of assets at this facility and commenced accelerated depreciation on certain long-term assets. We have determined that no impairment has occurred for these assets as of December 31, 2013.

Arlington operates eleven Trackside OTBs that accept wagers on races at Arlington as well as on races simulcast from other locations. One OTB is located on the Arlington property and another is located in East Moline, Illinois on approximately 122 acres. Arlington also leases an OTB located in Waukegan, Illinois consisting of approximately 25,000 square feet. Arlington operates eight OTBs within existing non-owned Illinois restaurants under license agreements. These OTBs are located in Chicago, which was relocated from its previous location in June 2012, Orland Hills, Villa Park, Rockford, South Elgin, McHenry, Hodgkins and Aurora and opened in April 2012, July 2011, December 2009, December 2002, June 2003, December 2007 and April 2013, respectively.

Fair Grounds operates twelve OTBs that accept wagers on races at Fair Grounds as well as on races simulcast from other locations. The Gentilly OTB is located on the Fair Grounds property. Another is located in Kenner, Louisiana and consists of approximately 4.3 acres. Fair Grounds also leases ten OTBs located in these southeast Louisiana communities: Chalmette, consisting of approximately 8,000 square feet of space; Covington, which consists of approximately 7,000 square feet of space; Elmwood, which consists of approximately 15,000 square feet of space; Gretna, which consists of approximately 20,000 square feet of space; Houma, which consists of approximately 10,000 square feet of space; LaPlace, which consists of approximately 7,000 square feet of space; Metairie, which consists of approximately 9,000 square feet of space; Boutte, which consists of approximately 10,000 square feet of space; Thibodaux, which consists of approximately 5,000 square feet of space; and Westwego, which consists of approximately 5,000 square feet of space. Video poker is offered at Chalmette, Kenner, Elmwood, Gretna, Houma, LaPlace, Boutte, Metairie, Thibodaux and Westwego.

E. Advance Deposit Wagering

We accept pari-mutuel wagers through Churchill Downs Technology Initiatives Company, which is doing business as TwinSpires.com. TwinSpires.com's headquarters is located in Mountain View, California and operates our ADW business, which accepts pari-mutuel wagering from customers residing in certain states who establish and fund an account from which they may place wagers via telephone, mobile device or through the Internet at www.twinspires.com. TwinSpires offers its customers streaming video of live horse races along with race replays and an assortment of racing and handicapping information. TwinSpires also offers all of its customers the ability to automatically qualify for its rewards program, TSC Elite. We believe that TwinSpires is a key component to the growth of the Company.

In addition, TwinSpires provides to other entities and earns commissions from white label advance deposit wagering products and services. Under these arrangements, TwinSpires typically provides an advance deposit wagering platform and related operational activities while the other entities typically provide a brand name, marketing and limited customer functions. Fair Grounds also operates its own ADW business for Louisiana residents through a contractual agreement with TwinSpires. Velocity operates an ADW business that is licensed in the British Dependency Isle of Man focused on high wagering-volume international customers and Luckity operates an ADW business that offers real-money bingo with outcomes based on and determined by pari-mutuel wagers on live horseraces.

F. Gaming Operations

On July 17, 2013, we completed the acquisition of Oxford in Oxford, Maine for cash consideration of approximately $168.6 million. The transaction included the acquisition of a 25,000-square-foot casino with approximately 800 slot machines and 22 table games and dining facilities on approximately 130 acres of land.

On October 23, 2012, we completed the acquisition of Riverwalk in Vicksburg, Mississippi for cash consideration of approximately $145.6 million. The transaction included the acquisition of a 25,000-square-foot casino with approximately 725 slots machines and 18 table games, an 80-room hotel, a 5,600-square-foot event center and dining facilities on approximately 22 acres of land.

On December 16, 2010, we completed the acquisition of Harlow's in Greenville, Mississippi for cash consideration of approximately $140.4 million. The transaction included the acquisition of a 33,000-square foot casino with approximately 900 slot machines and 21 tables games, a 105-room attached hotel, a 2,600-seat entertainment center and three dining facilities. Harlow's is located on approximately 78 acres of leased land adjacent to U.S. Highway 82 in Greenville, Mississippi. The property is visible from the highway and is the first gaming facility encountered when crossing the Greenville Bridge into Mississippi from Arkansas. On May 12, 2011, the property sustained flood damage to its 2,600-seat entertainment center and a portion of its dining facilities. On June 1, 2011, we resumed casino operations with temporary dining facilities. During December 2012 and January 2013, we completed the renovation and improvement projects, which included a new buffet area, steakhouse, business center, spa facility, fitness center, pool and a multi-purpose event center.

On January 22, 2010, we opened a slot facility, Calder Casino, which is adjacent to Calder and offers approximately 1,140 slot machines in a single-level, 104,000 square foot facility and a poker room operation branded "Studz Poker Club". Calder is the sole thoroughbred racetrack in Miami-Dade County, Florida to offer both live and import simulcast pari-mutuel wagering in addition to a casino facility. The facility offers three dining options, including a buffet dining area, a centrally located bar with a separate casual dining area and a "grab and go" dining option.

During October 2008, we opened our permanent 33,000-square-foot slot operations facility, Fair Grounds Slots, adjacent to Fair Grounds, which operates approximately 620 slot machines. The facility includes two concession areas, a bar adjacent to the gaming floor, a renovated simulcast facility and other amenities for gaming and pari-mutuel wagering patrons.

VSI is the operator of approximately 780 video poker machines at ten OTBs operated by Fair Grounds.

We intend to continue to pursue expanded gaming opportunities with the goal of broadening our market, and thereby increasing gaming revenues.

G. Information and Totalisator Services

We maintain one of the world's largest computerized databases of pedigree and racing information for the thoroughbred horse industry. We provide special reports, statistical information, handicapping information, pedigrees, and other data to organizations, publications and individuals within the thoroughbred industry. This service is accessible through the Internet at www.brisnet.com. In addition, many of the handicapping products are available at our ADW site, www.twinspires.com.

We manufacture and operate pari-mutuel wagering systems for racetracks, OTBs and other pari-mutuel wagering businesses through our subsidiary, United Tote. United Tote provides totalisator services, which accumulate wagers, record sales, calculate payoffs and display wagering data to patrons who wager on horseraces. United Tote has contracts to provide totalisator services to a significant number of third-party racetracks, OTBs and other pari-mutuel wagering businesses, in addition to providing these services at many of our facilities.

H. Sources of Revenue

Our racing revenues include commissions on pari-mutuel wagering at our racetracks and OTBs, plus simulcast host fees earned from other wagering sites. In addition, amounts include ancillary revenues generated by the pari-mutuel facilities including admissions, sponsorships and licensing rights and food and beverage sales. Our gaming revenues are primarily generated from slot machines, video poker, poker card room and table games and ancillary revenues such as hotel and food and beverage sales. Our online revenues are generated by our ADW business from wagering through the Internet, telephone or other mobile devices on pari-mutuel events. Finally, our other revenues are primarily generated by United Tote and our other minor subsidiaries.

Financial information about our segments required by this Item is incorporated by reference from the information contained in the Notes to Consolidated Financial Statements included in Item 8. "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

I. Governmental Regulations

The ownership, operation, and management of our gaming and racing facilities are subject to pervasive regulation under the laws and regulations of each of the jurisdictions in which we operate. Gaming laws are generally based upon declarations of public policy designed to protect gaming consumers and the viability and integrity of the gaming industry. Gaming laws also may be designed to protect and maximize state and local revenues derived through taxes and licensing fees imposed on gaming industry participants as well as to enhance economic development and tourism. To accomplish these public policy goals, gaming laws establish procedures to ensure that participants in the gaming industry meet certain standards of character and fitness. In addition, gaming laws require gaming industry participants to:

- Ensure that unsuitable individuals and organizations have no role in gaming operations;
- Establish procedures designed to prevent cheating and fraudulent practices;
- Establish and maintain responsible accounting practices and procedures;
- Maintain effective controls over their financial practices, including establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues;
- Maintain systems for reliable record keeping;
- File periodic reports with gaming regulators;
- Ensure that contracts and financial transactions are commercially reasonable, reflect fair market value and are arms-length transactions; and

- Establish programs to promote responsible gaming and inform patrons of the availability of help for problem gaming.

Typically, a state regulatory environment is established by statute and is administered by a regulatory agency with broad discretion to regulate the affairs of owners, managers, and persons with financial interests in gaming operations. Among other things, gaming authorities in the various jurisdictions in which we operate:

- Adopt rules and regulations under the implementing statutes;
- Interpret and enforce gaming laws;
- Impose disciplinary sanctions for violations, including fines and penalties;
- Review the character and fitness of participants in gaming operations and make determinations regarding their suitability or qualification for licensure;
- Grant licenses for participation in gaming operations;
- Collect and review reports and information submitted by participants in gaming operations;
- Review and approve transactions, such as acquisitions or change-of-control transactions of gaming industry participants, securities offerings and debt transactions engaged in by such participants; and
- Establish and collect fees and taxes.

Any change in the laws or regulations of a gaming jurisdiction could have a material adverse effect on our gaming operations.

Licensing and Suitability Determinations

Gaming laws require us, each of our subsidiaries engaged in gaming operations, certain of our directors, officers and employees, and in some cases, certain of our shareholders, to obtain licenses from gaming authorities. Licenses typically require a determination that the applicant qualifies or is suitable to hold the license. Gaming authorities have very broad discretion in determining whether an applicant qualifies for licensing or should be deemed suitable. Criteria used in determining whether to grant a license to conduct gaming operations, while varying between jurisdictions, generally include consideration of factors such as the good character, honesty and integrity of the applicant; the financial stability, integrity and responsibility of the applicant, including whether the operation is adequately capitalized in the state and exhibits the ability to maintain adequate insurance levels; the quality of the applicant's casino facilities; the amount of revenue to be derived by the applicable state from the operation of the applicant's casino; the applicant's practices with respect to minority hiring and training; and the effect on competition and general impact on the community.

In evaluating individual applicants, gaming authorities consider the individual's business experience and reputation for good character, the individual's criminal history and the character of those with whom the individual associates.

Many gaming jurisdictions limit the number of licenses granted to operate casinos within the state, and some states limit the number of licenses granted to any one gaming operator. Licenses under gaming laws are generally not transferable without approval. Licenses in most of the jurisdictions in which we conduct gaming operations are granted for limited durations and require renewal from time to time. There can be no assurance that any of our licenses will be renewed. The failure to renew any of our licenses could have a material adverse effect on our gaming operations.

In addition to our subsidiaries engaged in gaming operations, gaming authorities may investigate any individual who has a material relationship to or material involvement with, any of these entities to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Our officers, directors and certain key employees must file applications with the gaming authorities and may be required to be licensed, qualify or be found suitable in many jurisdictions. Gaming authorities may deny an application for licensing for any cause which they deem reasonable. Qualification and suitability determinations require submission of detailed personal and financial information followed by a thorough investigation. The applicant must pay all the costs of the investigation. Changes in licensed positions must be reported to gaming authorities and in addition to their authority to deny an application for licensure, qualification or a finding of suitability, gaming authorities have jurisdiction to disapprove a change in a corporate position.

If one or more gaming authorities were to find that an officer, director or key employee fails to qualify or is unsuitable for licensing or unsuitable to continue having a relationship with us, we would be required to sever all relationships with such person. In addition, gaming authorities may require us to terminate the employment of any person who refuses to file appropriate applications.

Moreover, in many jurisdictions, certain of our shareholders may be required to undergo a suitability investigation similar to that described above. Many jurisdictions require any person who acquires beneficial ownership of more than a certain percentage of our voting securities, typically 5%, to report the acquisition to gaming authorities, and gaming authorities may require such holders to apply for qualification or a finding of suitability. Most gaming authorities, however, allow an "institutional investor" to apply for a waiver. An "institutional investor" is generally defined as an investor acquiring and holding voting securities in the ordinary course of business as an institutional investor, and not for the purpose of causing, directly or indirectly, the election of a member of our board of directors, any change in our corporate charter, bylaws, management, policies or operations, or those of any of our gaming affiliates, or the taking of any other action which gaming authorities find to be inconsistent with holding our voting securities for investment purposes only. Even if a waiver is granted, an institutional investor generally may not take any action inconsistent with its status when the waiver was granted without once again becoming subject to the foregoing reporting and application obligations.

Generally, any person who fails or refuses to apply for a finding of suitability or a license within the prescribed period after being advised it is required by gaming authorities may be denied a license or found unsuitable, as applicable. Any shareholder found unsuitable or denied a license and who holds, directly or indirectly, any beneficial ownership of our voting securities beyond such period of time as may be prescribed by the applicable gaming authorities may be guilty of a criminal offense. Furthermore, we may be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a shareholder or to have any other relationship with us or any of our subsidiaries, we: (i) pay that person any dividend or interest upon our voting securities; (ii) allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person; (iii) pay remuneration in any form to that person for services rendered or otherwise; or (iv) fail to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities including, if necessary, the immediate purchase of said voting securities for cash at fair market value.

Violations of Gaming Laws

If we or our subsidiaries violate applicable gaming laws, our gaming licenses could be limited, conditioned, suspended or revoked by gaming authorities, and we and any other persons involved could be subject to substantial fines. Further, a supervisor or conservator can be appointed by gaming authorities to operate our gaming properties, or in some jurisdictions, take title to our gaming assets in the jurisdiction, and under certain circumstances, earnings generated during such appointment could be forfeited to the applicable state or states. Furthermore, violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. As a result, violations by us of applicable gaming laws could have a material adverse effect on our gaming operations.

Some gaming jurisdictions prohibit certain types of political activity by a gaming licensee, its officers, directors and key employees. A violation of such a prohibition may subject the offender to criminal and/or disciplinary action.

Reporting and Record-keeping Requirements

We are required periodically to submit detailed financial and operating reports and furnish any other information about us and our subsidiaries which gaming authorities may require. Under federal law, we are required to record and submit detailed reports of currency transactions involving greater than $10,000 at our casinos and racetracks, as well as any suspicious activity that may occur at such facilities. Failure to comply with these requirements could result in fines or cessation of operations. We are required to maintain a current stock ledger which may be examined by gaming authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to gaming authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. Gaming authorities may require certificates for our securities to bear a legend indicating that the securities are subject to specified gaming laws.

Review and Approval of Transactions

Substantially all material loans, leases, sales of securities and similar financing transactions by us and our subsidiaries must be reported to and in some cases approved by gaming authorities. Neither we nor any of our subsidiaries may make a public offering of securities without the prior approval of certain gaming authorities. Changes in control through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or otherwise are subject to receipt of prior approval of gaming authorities. Entities seeking to acquire control of us or one of our subsidiaries must satisfy gaming authorities with respect to a variety of stringent standards prior to assuming control. Gaming authorities may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

License Fees and Gaming Taxes

We pay substantial license fees and taxes in many jurisdictions, including some of the counties and cities in which our operations are conducted, in connection with our casino gaming operations, computed in various ways depending on the type of gaming or activity involved. Depending upon the particular fee or tax involved, these fees and taxes are payable with varying frequency. License fees and taxes are based upon such factors as a percentage of the gross gaming revenues received; the number of gaming devices and table games operated; or a one-time fee payable upon the initial receipt of license and fees in connection with the renewal of license. In some jurisdictions, gaming tax rates are graduated such that they increase as gross gaming revenues increase.

Furthermore, tax rates are subject to change, sometimes with little notice, and such changes could have a material adverse effect on our gaming operations. In addition to taxes specifically unique to gaming, we are required to pay all other applicable taxes.

Operational Requirements

In most jurisdictions, we are subject to certain requirements and restrictions on how we must conduct our gaming operations. In certain states, we are required to give preference to local suppliers and include minority and women-owned businesses as well as organized labor in construction projects to the maximum extent practicable as well as in general vendor business activity. Similarly, we may be required to give employment preference to minorities, women and in-state residents in certain jurisdictions. In addition, our ability to conduct certain types of games, introduce new games or move existing games within our facilities may be restricted or subject to regulatory review and approval. Some of our operations are subject to restrictions on the number of gaming positions we may have and the maximum wagers allowed to be placed by our customers.

Horseracing and Pari-Mutuel Wagering Regulations

Horseracing is a highly regulated industry. In the U.S., individual states control the operations of racetracks located within their respective jurisdictions with the intent of, among other things, protecting the public from unfair and illegal gambling practices, generating tax revenue, licensing racetracks and operators and preventing organized crime from being involved in the industry. Although the specific form may vary, states that regulate horseracing generally do so through a horseracing commission or other gambling regulatory authority. In general, regulatory authorities perform background checks on all racetrack owners prior to granting them the necessary operating licenses. Horse owners, trainers, jockeys, drivers, stewards, judges and backstretch personnel are also subject to licensing by governmental authorities. State regulation of horse races extends to virtually every aspect of racing and usually extends to details such as the presence and placement of specific race officials, including timers, placing judges, starters and patrol judges. We currently satisfy the applicable licensing requirements of the racing and gambling regulatory authorities in each state where we maintain racetracks and/or carry on business, including, but not limited to, the Florida Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering ("DPW"), the Illinois Racing Board ("IRB"), the Kentucky Horse Racing Commission ("KHRC"), the Louisiana State Racing Commission ("LSRC"), the Ohio State Racing Commission ("OSRC") and the Oregon Racing Commission ("ORC").

In the United States, interstate pari-mutuel wagering on horseracing is subject to the Interstate Horseracing Act ("IHA") and its amendment in 2000. As a result of this statute, racetracks can commingle wagers from different racetracks and wagering facilities and broadcast horseracing events to other licensed establishments.

Kentucky

Kentucky's racetracks, including Churchill Downs, are subject to the licensing and regulation of the KHRC. The KHRC is responsible for overseeing horseracing and regulating the state equine industry. Licenses to conduct live thoroughbred racing meets, to participate in simulcasting and to accept ADW wagers from Kentucky residents are approved annually by the KHRC based upon applications submitted by the racetracks in Kentucky. To some extent, Churchill Downs competes with other racetracks in Kentucky for the award of racing dates, however, the KHRC is required by state law to consider and seek to preserve each racetrack's usual and customary live racing dates. During October 2013, Churchill Downs received re-approval to conduct its twelve-day September meet again during 2014, in addition to its traditional spring and fall racing meets.

Illinois

In Illinois, licenses to conduct live thoroughbred racing and to participate in simulcast wagering are approved by the IRB. Generally, there is no substantial change from year to year in the number of racing dates awarded to each racetrack. In January 2014, the IRB appointed Arlington the host track in Illinois for 23 simulcast host days, which is a decrease of three simulcast host days compared to the same period of 2013, but awarded Arlington three additional live host days during 2014, as compared to the prior year. The total host day allocation awarded to Arlington during 2014 did not change from the prior year.

During November 2013, Illinois racetracks and horsemen's groups reached an agreement to extend Illinois's account wagering law, which was scheduled to expire on January 31, 2014. On January 29, 2014, the Illinois legislature approved regulations to reauthorize ADW wagering though January 2017 and will impose an incremental surcharge on winning wagers of 0.2%, in addition to the current surcharge of 0.18%. The legislation was approved by the Illinois legislature and signed by the Governor of Illinois during January 2014.

Florida

In Florida, licenses to conduct live thoroughbred racing and to participate in simulcast wagering are approved by the DPW. The DPW is responsible for overseeing the network of state offices located at every pari-mutuel wagering facility, as well as issuing the permits necessary to operate a pari-mutuel wagering facility. The DPW also issues annual licenses for thoroughbred, standardbred and quarter horse races but does not approve the specific live race days. Calder may face direct competition from other Florida racetracks, including Miami-area racetracks, and host more or fewer live racing dates in the future. In recent years, Calder has elected to conduct fewer days of live racing in order to increase purses and maximize the quality of the racing product. Race date requests to the DPW for the 2014-2015 racing season are due on February 28, 2014, and Calder has not yet finalized its submission.

On February 28, 2013, Calder and Gulfstream Park submitted amended applications to the Florida Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering (the "Division") for the twelve month racing season beginning July 1, 2013. The Division approved Calder's live race meet to run three days a week (Friday through Sunday) from July 1, 2013 to June 30, 2014, and Gulfstream Park's live race meet to run from July 1, 2013, to June 30, 2014. Pursuant to the licenses granted, Calder and Gulfstream Park will simultaneously conduct live thoroughbred racing, in certain months, during 2013 and 2014. On July 6, 2013, Calder and Gulfstream Park conducted their first simultaneous live racing performances, and both racetracks are scheduled to continue to overlap live racing on certain dates through June 2014. This overlapping of live racing has resulted in direct competition for on-track horseracing, in the intrastate and interstate simulcast markets and for horses in South Florida, which negatively affected Calder's ability to achieve full field horse races and to generate handle on live racing.

Previously in Florida, a thoroughbred racetrack conducting a live racing meet had control over hosting out-of-state signals, and received commissions on wagers placed at other racetracks throughout the state. There were instances where one or more thoroughbred racetracks operated live meets concurrently, and in that instance each racetrack had the opportunity to be a "host" track for out-of state interstate horseracing signals. When two or more thoroughbred racetracks operate live meets concurrently, other wagering sites must choose a live racetrack to host their pari-mutuel wagering. Three Florida thoroughbred racetracks, including Calder, have historically served as the host track based on their live racing calendar. On May 7, 2013, all of Florida's three thoroughbred racetracks began claiming that they were all host tracks on a year round basis.

On May 24, 2013, Calder filed a petition with the Florida Division of Administrative Hearings (the "DOAH") challenging the other racetracks' interpretation that they may conduct interstate simulcasting, and whether it is a valid interpretation of state law and the Interstate Horseracing Act of 1978. Calder believes that Florida statutes require at least three days of live racing per week to be considered a host track. Three days prior to the hearing, the Division moved to abate the case and go to rulemaking, which was granted. On June 28, 2013, a rule workshop was held, comments were submitted, and the Division had until July 26, 2013, to notify the Administrative Law Judge at the DOAH of the progress of the rulemaking of the Division. On July 23, 2013, the Division proposed a modification to state law which would permit multiple hosts, if the racetracks conducted at least two days of live racing per week.

On October 14, 2013, the Florida Legislature Joint Administrative Procedures Committee (the "Committee") issued a letter to the Division challenging the Division's authority to interpret Florida statutes and to permit thoroughbred racetracks to operate fewer than three live racing days per week to be considered host tracks. A public hearing on November 7, 2013 was held by the Division to address the Division's proposed rules and, after taking comments from thoroughbred permit holders and other interested parties, the Division issued a Notice of Change on November 27, 2013, that thoroughbred permit holders must conduct three days of live racing per week in order to qualify as a host track. The Division has scheduled a rule hearing on March 6, 2014 to promulgate a rule which will further define thoroughbred hosting eligibility in Florida. Until Florida legal and regulatory matters related to this issue are resolved, we do not fully know the long-term implications of overlapping race dates on our business, financial condition and results of operations.

Louisiana

In Louisiana, licenses to conduct live thoroughbred racing and to participate in simulcast wagering are approved by the LSRC. The LSRC is responsible for overseeing the awarding of licenses for the conduct of live racing meets, the conduct of thoroughbred horseracing, the types of wagering which may be offered by pari-mutuel facilities and the disposition of revenue generated from wagering. Off-track wagering is also regulated by the LSRC. Louisiana law requires live racing at a licensed racetrack for at least 80 days over a 20 week period each year to maintain the license and to conduct gaming.

Additionally, with the addition of slot machines at Fair Grounds, Louisiana law requires live quarter horseracing to be conducted at the racetrack. We conducted fourteen days of quarter horseracing in 2013 and eight days of quarter horseracing in 2012.

Other States

TwinSpires is licensed in Oregon under a multi-jurisdictional simulcasting and interactive wagering totalisator hub license issued by the ORC and in accordance with Oregon law. TwinSpires also holds ADW licenses in certain other states such as California, Illinois, Idaho, Kentucky, Maryland, Virginia and Washington. Changes in the form of new legislation or regulatory activity at the state or federal level could adversely impact the operations, success or growth of our ADW business.

The total number of days on which each racetrack conducts live thoroughbred racing fluctuates annually according to each calendar year and the determination of applicable regulatory activities. A substantial change in the allocation of live racing days at any of our four racetracks could significantly impact our operations and earnings in future years.

Gaming Regulations

The manufacture, distribution, servicing and operation of video draw poker devices in Louisiana are subject to the Louisiana Video Draw Poker Devices Control Law and the rules and regulations promulgated thereunder. The manufacture, distribution, servicing and operation of video poker devices and slot machines are maintained by a single gaming control board for the regulation of gaming in Louisiana. This board, created on May 1, 1996, is called the Louisiana Gaming Control Board (the "Louisiana Board") and oversees all licensing for all forms of legalized gaming in Louisiana (including all regulatory enforcement and supervisory authority that exist in the state as to gaming on Native American lands). The Video Gaming Division and the Slots Gaming Division of the Gaming Enforcement Section of the Office of the State Police within the Department of Public Safety and Corrections (the "Division") performs the investigative functions for the Louisiana Board for video poker and slot gaming. The laws and regulations of Louisiana are based on policies of maintaining the health, welfare and safety of the general public and protecting the video gaming industry from elements of organized crime, illegal gambling activities and other harmful elements, as well as protecting the public from illegal and unscrupulous gaming to ensure the fair play of devices. The Louisiana Board also regulates slot machine gaming at racetrack facilities pursuant to the Louisiana Pari-Mutuel Live Racing Facility Economic Redevelopment and Gaming Control Act. In addition, the LSRC also issues licenses required for Fair Grounds to operate slot machines at the racetrack and video poker devices at its OTBs. The failure to comply with the rules and regulations of the Louisiana Board could have a material, adverse impact on our business, financial condition and results of operations.

The ownership and operation of casino gaming facilities in the State of Mississippi is subject to extensive state and local regulation, but primarily the licensing and regulatory control of the Mississippi Gaming Commission (the "Mississippi Commission"). The laws, regulations and supervisory procedures of the Mississippi Commission are based upon declarations of public policy that are concerned with, among other things: (1) the prevention of unsavory or unsuitable persons from having direct or indirect involvement with gaming at any time or in any capacity; (2) the establishment and maintenance of responsible accounting practices and procedures; (3) the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing for reliable record keeping and requiring the filing of periodic reports with the Mississippi Commission; (4) the prevention of cheating and fraudulent practices; (5) providing a source of state and local revenues through taxation and licensing fees; and (6) ensuring that gaming licensees, to the extent practicable, employ Mississippi residents. The regulations are subject to amendment and interpretation by the Mississippi Commission. Changes in Mississippi laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted and such changes, if enacted, could have an adverse effect on us and our Mississippi gaming operations. The failure to comply with the rules and regulations of the Mississippi Commission could have a material, adverse impact on our business, financial condition and results of operations.

The ownership and operation of casino gaming facilities in the State of Maine is subject to extensive state and local regulation, but primarily the licensing and regulatory control of the Maine Gambling Control Board (the "MGCB"). The laws, regulations and supervisory procedures of the MGCB are based upon declarations of public policy that are concerned with, among other things: (1) the regulation, supervision and general control over casinos and the ownership and operation of slot machines and table games; (2) the investigation of complaints made regarding casinos; (3) the establishment and maintenance of responsible accounting practices and procedures; (4) the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing for reliable record keeping; and (5) the prevention of cheating and fraudulent practices. The regulations are subject to amendment and interpretation by the MGCB. Changes in Maine laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted and such changes, if enacted, could have an adverse effect on us and our Maine gaming operations. The failure to comply with the rules and regulations of the MGCB could have a material, adverse impact on our business, financial condition and results of operations.

The ownership and operation of casino gaming facilities in the State of Florida is subject to extensive state and local regulation, primarily by the Florida Department of Business and Professional Regulation (the "DBPR"), within the executive branch of Florida's state government. The DBPR is charged with the regulation of Florida's pari-mutuel, cardroom and slot gaming industries, as well as collecting and safeguarding associated revenues due to the state. The DBPR has been designated by the Florida legislature as the state compliance agency with the authority to carry out the state's oversight responsibilities in accordance with the provisions outlined in the compact between the Seminole Tribe of Florida and the State of Florida. The laws and regulations of Florida are based on policies of maintaining the health, welfare and safety of the general public and protecting the video gaming industry from elements of organized crime, illegal gambling activities and other harmful elements, as well as protecting the public from illegal and unscrupulous gaming to ensure the fair play of devices. The failure to comply with the rules and regulations of the DPBR could have a material, adverse impact on our business, financial condition and results of operations.

Video Lottery was introduced in the State of Ohio in 2012 when the Governor of Ohio signed Executive Order 2011-22K, which authorized the Ohio Lottery Commission ("the OLC") to amend and adopt rules necessary to implement a video lottery program at Ohio's seven horse racing facilities. The ownership and operation of VLT facilities in the State of Ohio is subject to extensive state and local regulation, but primarily the licensing and regulatory control of the OLC. The laws, regulations and supervisory procedures of the OLC include 1) regulating the licensing of video lottery sales agents (VLSA), key gaming employees and VLT manufacturers, 2) collecting and disbursing VLT revenue and 3)maintaining compliance in regulatory matters. The failure to comply with the rules and regulations of the OLC could have a material adverse impact on our business, financial condition and results of operations.

J. Competition

We operate in a highly competitive industry with a large number of participants, some of which have financial and other resources that are greater than ours. The industry faces competition from a variety of sources for discretionary consumer spending including spectator sports and other entertainment and gaming options. Competitive gaming activities include traditional and Native American casinos, video lottery terminals, state-sponsored lotteries and other forms of legalized gaming in the U.S. and other jurisdictions. Additionally, Internet-based interactive gaming and wagering, both legal and, we believe, illegal, is growing rapidly and affecting competition in our industry. We anticipate competition in this area will become more intense as new Internet-based ventures enter the industry and as state and federal regulations on Internet-based activities are clarified.

Legalized gaming is currently permitted in various forms in many states and Canada. Other jurisdictions could legalize gaming in the future, and established gaming jurisdictions could award additional gaming licenses or permit the expansion of existing gaming operations. If additional gaming opportunities become available near our racing or gaming operations, such gaming opportunities could have a material, adverse impact on our business, financial condition and results of operations.

All of our racetracks face competition in the simulcast market. Approximately 43,830 thoroughbred horse races are conducted annually in the U.S. Of these races, we host approximately 3,560 races each year, or about 8.1% of the total. As a content provider, we compete for wagering dollars in the simulcast market with other racetracks conducting races at or near the same times as our races. As a racetrack operator, we also compete for horses with other racetracks running live racing meets at or near the same time as our races. Our ability to compete is substantially dependent on purse size. In recent years, this competition has increased as more states legalize gaming, allowing slot machines at racetracks with mandatory purse contributions. Over 88 percent of pari-mutuel handle is bet at off-track locations, either at other racetracks, OTBs, casinos, or through ADW channels. As a content distributor, we compete for these dollars to be wagered at our racetracks, OTBs, casinos and via our ADW business.

Louisville, Kentucky

Churchill Downs faces competition from free-standing casinos and racetracks which are combined with casinos ("racinos") in neighboring states. Currently, three Indiana casinos compete for customers in the Louisville market. These casinos include Horseshoe Indiana, located in Elizabeth, Indiana, Belterra, a Pinnacle Entertainment casino located between Louisville and Cincinnati and the resort casino at French Lick, located about 60 miles northwest of Louisville. Additionally, Hoosier Park operates 2,000 slot machines, and Indiana Grand Racing & Casino operates 1,900 slot machines. This has resulted in increased purses at those Indiana racetracks. During 2009, the Ohio voters passed a referendum to allow four casinos in Ohio, and, during 2011, the state legislature passed legislation allowing Ohio's seven racetracks to apply for video lottery licenses.

Separate casino projects in Columbus, Toledo, Cleveland and Cincinnati opened during 2012 and 2013. We believe that the potential expansion of gaming at Ohio racetracks could provide a competitive advantage to those racetracks and may enable Ohio racetracks to increase their purses.

On October 28, 2011, Aqueduct Racetrack opened a gaming facility with more than 2,400 video lottery terminals and electronic table games. An additional 2,500 gaming machines were added in December 2011 as part of a further expansion of the facility. As a result of the addition of gaming activities, we expect that New York purse payments will be enhanced as compared to their historical levels. These enhanced purses could affect our ability to attract horses and trainers and could have a material, adverse impact on our business, financial condition and results of operations.

These developments may result in Ohio and New York racetracks attracting horses that would otherwise race at Kentucky racetracks, including Churchill Downs, thus negatively affecting the number of starters and purse size which, in turn, may have a negative effect on handle. In addition, we believe the opening of four land-based, free-standing casinos in Ohio may likewise have a material, adverse impact on our business, financial condition and results of operations.

Miami, Florida

Calder is surrounded by competitors for consumers' discretionary income. Calder competes with Gulfstream Park for thoroughbred race fans in the Miami area. This direct competition may adversely and materially impact our business, financial condition and results of operations.

On January 22, 2010, Calder Casino commenced operations and features approximately 1,140 slot machines. Calder Casino competes with three established casinos in Broward County just to the north of Miami-Dade County, and an additional casino which opened during February 2014. We also face competition from Native American casinos, such as the Seminole Hard Rock facility, and popular gambling cruises-to-nowhere. Due to the high tax rates in Florida for pari-mutuel gaming facilities, Native American casinos, which are not taxed at the same rates, are generally able to spend more money marketing their facilities to consumers.

On November 9, 2011, we petitioned the Florida Supreme Court to grant discretionary review of Calder Race Course, Inc., vs. Florida Department of Business and Professional Regulation and South Florida Racing Association, LLC, and reverse the Florida First Appellate Court's decision which allows for the opening of a slot machine facility at Hialeah Race Course, located approximately twelve miles from Calder. On April 27, 2012, the Florida Supreme Court declined to consider a review of our petition, upholding the decision of the lower court. Hialeah Race Course subsequently commenced construction of a casino with approximately 900 slot machines which opened during the summer of 2013. The operation of a slot machine facility at Hialeah Race Course could have a material, adverse impact on our business, financial condition and results of operations.

Florida legislators continue to debate the expansion of Florida gaming to include Las Vegas-style destination resort casinos. Such casinos may be subject to taxation rates lower than the current pari-mutuel taxation structure. Should such legislation be enacted, it could increase competition and have a material, adverse impact on our business, financial condition and results of operations.

Chicago, Illinois

Arlington competes in the Chicago market against a variety of entertainment options. In addition to other racetracks in the area such as Hawthorne Park and Maywood Park, there are ten riverboat casino operations that draw from the Chicago market including Rivers Casino, which opened in July 2011, in Des Plaines, Illinois. Additionally, Native American gaming operations in Wisconsin may adversely affect Arlington.

New Orleans, Louisiana

Fair Grounds competes in the New Orleans area with two riverboat casinos and one land-based casino. With approximately 620 slot machines, Fair Grounds competes with Harrah's land-based casino, which is the largest and closest competitor to Fair Grounds. Additionally, Fair Grounds faces significant gambling competition along the Mississippi Gulf Coast. Fair Grounds also competes with video poker operations located at various OTBs, truck stops and restaurants in the area.

Oxford, Maine

Oxford, which opened during June 2012, competes in the State of Maine with one other casino in Bangor, Maine known as Hollywood Slots, which opened in November 2005. Oxford is located approximately 120 miles south of Hollywood Slots. Oxford also anticipates it will compete with the Massachusetts gaming market which legalized gaming in November 2011, through legislation authorizing three resort style casinos and one slot machine parlor in the state. Massachusetts has not yet commenced any gaming operations.

Greenville, Mississippi

Harlow's competes in Mississippi with a variety of riverboat and land-based casinos. Our principal local competitor in Greenville is Trop Casino, which is currently renovating its facilities. Harlow's also faces regional competition from a casino in Lula, Mississippi and from two locations in Arkansas. Both Arkansas locations offer pari-mutuel wagering on live and simulcast racing and other electronic games of skill such as blackjack, video poker, and electronic roulette. In addition, historical racing machines are offered at one of the Arkansas locations.

Vicksburg, Mississippi

Riverwalk competes in the Vicksburg area and is the newest and the only land-based casino in the local market. Our principal local competitors are Ameristar Casino, which is the largest local competitor, and Rainbow Hotel Casino, which is the closest competitor, in Vicksburg. In addition, Riverwalk faces regional competition from two locations in Natchez Mississippi, including Magnolia Bluff Casino which opened during December 2012 and from Pearl River Resort in Philadelphia, Mississippi.

From time to time, potential competitors have proposed the development of additional casinos. The Mississippi Gaming Control Act does not limit the number of licenses that may be granted, and there are a number of additional sites located in the Gulf Coast region that are in various stages of development. Any significant licensure could have a material, adverse impact on our business, financial condition and results of operations.

Advance Deposit Wagering

TwinSpires competes with other ADW businesses for both customers and racing content, and TwinSpires also competes with online gaming sites. Our competitors include, but are not limited to, Betfair Limited (d/b/a TVG), the Stronach Group (d/b/a XpressBet), Premier Turf Club, Lien Games, AmWest Entertainment, The New York Racing Association (d/b/a NYRA), Connecticut OTB, Penn National Gaming Inc. and Racing2Day LLC. We also own an information services data business that sells handicapping and pedigree information to wagering customers and horsemen in the industry. This data may give us a competitive advantage as we are able to provide promotional products to our ADW customers that other ADW businesses cannot provide. As a data provider, we compete with companies such as Equibase and the Daily Racing Form by selling handicapping data to wagering customers.

In response to increased competition from other gaming options, we continue to seek new sources of revenue. We are focused on product innovation, marketing initiatives and customer relationships. We also seek to offer the widest array of racing content from throughout the world, and where available, we will take advantage of geographical expansion. All of our activities are highly dependent on the regulatory environment and legal developments within federal and individual state jurisdictions.

Totalisator Business

We acquired United Tote through our acquisition of Youbet on June 2, 2010. United Tote provides totalisator services, which accumulate wagers, record sales, calculate payoffs and display wagering data in a secure manner to patrons who wager on horseraces. Our competitors are primarily Sportech and AmTote International, Inc. Our competition outside of North America is more fragmented, with competition also being provided by several international and regional companies. United Tote competes primarily on the basis of the design, performance, reliability and pricing of its products and contract services.

United Tote has contracts to provide totalisator services to a significant number of racetracks, OTBs and other pari-mutuel wagering businesses. Errors by United Tote technology or personnel may subject us to liabilities, including financial penalties under our totalisator service contracts, which could have a material, adverse impact on our business, financial condition and results of operations.

K. Legislative Changes

Federal

Federal Internet Gaming

On November 14, 2013, Washington Representative Jim McDermott introduced the Internet Gambling Regulation and Tax Enforcement Act of 2013 (“HR 3491”) to tax federally-sanctioned Internet wagering potentially made legal by the Internet Gambling Regulation, Enforcement, and Consumer Protection Act of 2013 ("HR 2282") or similar legislation. HR 3491 would create up to a 12% deposit tax on amounts deposited by players for Internet wagering, an amount to be paid by licensed operators, not by players. The federal government would collect 4% of the tax, with up to 8% going to the state or Indian tribe where the wager is placed.

On July 16, 2013, a subcommittee of the U.S. Senate Commerce Committee held a hearing which focused on the ramifications of the December 23, 2011 Department of Justice opinion that reversed a long-held interpretation of the Wire Act of 1961 (the “Wire Act”), which had historically narrowed the scope of the Wire Act to sports wagering. The Department of Justices’ opinion permitted individual states to offer online games of chance and skill on an intrastate basis.

On July 11, 2013, Texas Representative Joe Barton introduced the Internet Poker Freedom Act of 2013. The proposed legislation would create a federal regulatory and licensing structure that would allow established commercial and tribal casinos as well as gaming suppliers to obtain a license to offer interstate online poker. The U.S. Department of Commerce and National Indian Gaming Commission, as well as qualified state and tribal regulators, would be given oversight authority under the terms of the legislation. States would be allowed to “opt-out” of the federal system.

On June 6, 2013, New York Representative Peter King introduced HR 2282 to legalize all forms of Internet wagering, with the exception of sports betting. HR 2282 would establish a federal structure to license and regulate providers of Internet gaming. Under the proposed legislation, Internet gaming operators would be able to obtain licenses from the Department of Treasury or state or tribal authorities authorizing them to accept wagers over the Internet from individuals in the U.S. or outside the U.S. Individual states would be able to “opt-out” and prohibit or limit Internet gambling within their borders by notifying the Secretary of Treasury.

At this point, it is difficult to assess the probability of passage of proposed legislation at the federal level, the form of any final legislation, or its impact on our business, financial condition and results of operations.

Wire Act of 1961 - Federal Clarification

On December 23, 2011, the U.S. Department of Justice clarified its position on the Wire Act, which had historically been interpreted to outlaw all forms of gambling across states lines. The department’s Office of Legal Counsel determined, in a written memorandum, that the Wire Act applied only to a sporting event or contest but did not apply to other forms of Internet gambling, including online betting unrelated to sporting events. The Justice Department opinion could be interpreted to allow Internet gaming on an intrastate basis. Since the issuance of this opinion, there have been actions taken by various state legislatures to either further enable or further limit Internet gaming opportunities for their residents and businesses, and we anticipate that other states may follow. At this point, we do not know to what extent intrastate Internet gaming could affect our business, financial condition and results of operations.

House Hearing on Medication and Performance-Enhancing Drugs in Horses

In November 2013, the Subcommittee on Commerce, Manufacturing and Trade of the House Committee on Energy and Commerce held a hearing on the use of anti-bleeding medications, painkillers and performance enhancing drugs in racehorses. Testimony focused on the Horseracing Integrity and Safety Act of 2013, which has been introduced in the House and Senate. This legislation would empower an independent agency to regulate and standardize medication usage within the industry. It is unclear to what extent such federal legislation could impact our business, financial condition and results of operations.

Nevada

Pursuant to the framework established by Assembly Bill 114, which was signed into law by Governor Brian Sandoval on February 21, 2013, intrastate Internet gambling was legalized in Nevada. Nevada gaming companies began offering online poker on April 30, 2013. It is unclear to what extent such regulations could impact our business, financial condition and results of operations.

Kentucky

Expanded Gaming Legislation

On January 7, 2014, two bills related to the authorization of expanded gaming in Kentucky were filed for consideration during the 2014 legislative session. House Bill 67 is a proposed constitutional amendment authorizing casino gaming in the state. If approved by the legislature, the constitutional amendment will appear on the November 2014 ballot. House Bill 68 outlines the licensing and regulatory structure should expanded gaming be approved. The legislation creates the Kentucky Gaming Commission to issue licenses and serve as the regulatory body for casino gaming; stipulates casino gaming may be conducted at the state's five existing racetracks as well as at three standalone locations; establishes a minimum $50 million licensing fee; provides for the distribution of gambling revenues received by the state as well as requires racetracks with a casino license to set aside 14.5 percent of gambling revenues for purses and breeders incentives and requires these tracks to increase the number of live racing days by ten percent for the first five years of casino gaming licensure. Should this legislation or similar future legislation be enacted into law, it could have a material impact on our business, financial condition and results of operations.

In addition, Senate Bill 33 was filed during January 2014. Senate Bill 33 would amend the Kentucky Constitution to provide up to seven casino locations in the state and would create an Equine Excellence Fund, into which ten percent of gross gaming revenues would be directed. Senate Bill 33 requires a three-fifths majority in both chambers of the Kentucky General Assembly and, if passed, would be submitted to voters for ratification no earlier than November 2014. Should this legislation or similar future legislation be enacted into law, it could have a material impact on our business, financial condition and results of operations.

Race-day Medication Ban

On June 13, 2012, the KHRC approved a change in state regulations that bans the use of anti-bleeding medication on race-days for graded and listed stakes horse races. The revised regulation must survive a legislative review process, in addition to potential legal challenges before being enacted into law. Should the regulation be enacted, it would be phased in over a three-year period, beginning in 2014. If approved, Kentucky would be the only U.S. state to have enacted such restrictions. At this point, we do not know the effect this legislation could have on our business, financial condition and results of operations.

Historical Racing Machines

During 2010, the KHRC approved a change in state regulations that would allow racetracks to offer pari-mutuel Historical Racing Machines ("HRMs"), which base their payouts on the results of previously-run races at racetracks across North America. During 2012, Kentucky Downs Racetrack operated an HRM facility with approximately 275 HRMs and Ellis Park Racetrack opened a HRM facility with 177 HRMs. On April 4, 2013, the KHRC approved 40 additional HRMs for use at Kentucky Downs Racetrack.

Despite the approval by the KHRC, challenges remain as to the legality of the enacted regulations. A declaratory judgment action was filed in Franklin Circuit Court on behalf of the Commonwealth of Kentucky and all Kentucky racetracks to ensure proper legal authority. The Franklin Circuit Court entered a declaratory judgment upholding the regulations in their entirety. The intervening adverse party filed a notice of appeal, and the KHRC and the racetracks filed a motion to transfer that appeal directly to the Supreme Court of Kentucky. On April 21, 2011, the Supreme Court of Kentucky denied the request to hear the case before the appeal was heard by the Kentucky Court of Appeals. On September 1, 2011, the intervening adverse party filed an injunction action with the Kentucky Court of Appeals to grant emergency relief that would prevent Kentucky Downs Racetrack from operating its HRMs. The intervening adverse party's motions were denied by the Kentucky Court of Appeals. On June 15, 2012, the Kentucky Court of Appeals vacated the lower court's decision and remanded the declaratory judgment action back to the Franklin County Circuit Court. On July 16, 2012, the Kentucky racetracks, the KHRC and the Kentucky Department of Revenue filed motions for discretionary review with the Supreme Court of Kentucky asking the court to overturn the Kentucky Court of Appeals' decision and address the merits of the case. On August 21, 2013, the Supreme Court of Kentucky heard oral arguments on the legality of HRMs. On February 20, 2014, the Supreme Court of Kentucky issued its ruling on the motions for discretionary review affirming, in part, and reversing, in part, the Kentucky Court of Appeals. In issuing its opinion, the Supreme Court of Kentucky held that the KHRC has the statutory authority to license and regulate the operation of pari-mutuel wagering on historic horse racing. The

Supreme Court of Kentucky further held that the Kentucky Department of Revenue does not have the authority to collect excise tax on the wagering handle generated by historic horse racing. On the issue of whether the operation of wagering on historic horse racing violates the gambling provisions of the Kentucky Penal Code, the Supreme Court of Kentucky remanded the case back to the Franklin County Circuit Court for further proceedings. At this time it is unclear the extent to which this case or future legislation related to this issue will materially impact our business, financial conditions and results of operations.

ADW Regulations

On January 16, 2014, House Bill 220 was introduced which includes an excise tax of 0.5% of wagering proceeds on advanced deposit wagering placed by Kentucky residents. Should this bill, or similar legislation be enacted into law, it is not expected to have a material negative impact on our Online Business operations.

Internet Lottery

During April 2013, the Kentucky Lottery Board authorized the Kentucky Lottery to offer keno and Internet lottery sales. On November 4, 2013 the Kentucky Lottery began offering keno at 400 locations across the state including bars, restaurants, fraternal organizations and existing lottery retailers. At this time we do not know the impact the availability of such games will have on our business, financial condition and results of operation.

Illinois

Expanded Gaming Legislation

During the 2013 legislative session, Senate Bill 1739 was introduced in the Illinois General Assembly to expand casino gaming to Illinois racetracks and to add five additional casinos within the state, including one in Chicago with 4,000 gaming positions. Senate Bill 1739 won approval in the Illinois Senate but was not considered by the House of Representatives. It is unknown if Senate Bill 1739, or similar legislation, will be considered during the 2014 legislative session. If enacted, this proposed legislation could have a material effect on our business, financial condition and results of operations.

ADW Legislation

House Bill 11, which permits advance deposit wagering by Illinois residents through January 31, 2017 was approved by the Illinois legislature and signed by the Governor on January 29, 2014. House Bill 11 provides funding for the Illinois Racing Board, provides for quarter horse purses through a new temporary surcharge of 0.2% on winning pari-mutuel wagers, creates a temporary optional 0.5% surcharge on winning wagers by individual tracks to support their track operation and purses as well as reactivates six OTB licenses. We expect approval of the legislation to result in a favorable impact to our business, financial condition and results of operation.

Online Gaming

During the 2012 legislative session, the Illinois Senate amended House Bill 4148 with language that, if enacted, would create a new division of the state lottery to oversee and operate online games, including poker, for registered players within Illinois. The division would also be given authority to enter into interstate and multinational online gaming compacts. As currently written, the lottery would create a single platform on which Internet Gaming would be conducted in Illinois. At a later date, the state could allow private companies licensed to conduct gaming in Illinois to essentially serve as affiliates. It is not clear under what terms the state would allow the private companies to participate. The legislative session adjourned without action on House Bill 4148. Similar legislation was not introduced during the 2013 session. At this point, we do not know how future legislation would impact our business, financial condition and results of operation.

Horse Racing Equity Trust Fund

During 2006, the Illinois General Assembly enacted Public Act 94-804, which created the HRE Trust Fund. During November 2008, the Illinois General Assembly passed Public Act 95-1008 to extend Public Act 94-804 for a period of three years beginning December 12, 2008. The HRE Trust Fund was funded by a 3% “surcharge” on revenues of Illinois riverboat casinos that met a certain revenue threshold. The riverboats paid all monies required under Public Acts 94-804 and 95-1008 into a special protest fund account which prevented the monies from being transferred to the HRE Trust Fund. The funds were moved to the HRE Trust Fund and distributed to the racetracks, including Arlington, in December 2009.

Beginning in 2009, we received payments from the HRE Trust Fund related to subsidies paid by the original nine Illinois riverboat casinos in accordance with Illinois Public Acts 94-804 and 95-1008. The HRE Trust Fund was established to fund operating and capital improvements at Illinois racetracks. The funds were to be distributed with approximately 58% of the total to be used for horsemen’s purses and the remaining monies to be distributed to Illinois racetracks. The monies received from the Public Acts were placed into an Arlington Park escrow account due to a temporary restraining order (“TRO”) pending the resolution of a lawsuit brought by certain Illinois casinos that were required to pay funds to the HRE Trust Fund. In August 2011, the stay of dissolution expired and the TRO was dissolved, which terminated the restrictions on our ability to access the funds from the HRE Trust Fund held in the escrow account.

As of December 31, 2013, we had received $46.1 million in proceeds, of which $26.5 million was designated for Arlington purses. We used the remaining $19.6 million of the proceeds to improve, market, and maintain or otherwise operate the Arlington racing facility in order to conduct live racing.

Horse Racing Equity Trust Fund – Tenth Riverboat License

Under legislation enacted in 1999, the HRE Trust Fund was scheduled to receive amounts equal to 15% of the adjusted gross receipts generated by a tenth riverboat casino license to be granted in Illinois. The funds were to be distributed to racetracks in Illinois for purses as well as racetrack discretionary spending. During December 2008, the Illinois Gaming Board awarded the tenth riverboat license to a casino in Des Plaines, Illinois. This casino opened during July 2011, entitling the Illinois racing industry to receive an amount equal to 15% of the adjusted gross receipts of this casino from the gaming taxes generated by that casino, once the accumulated funds were appropriated by the state.

On July 10, 2013, the Governor of Illinois signed Illinois House Bill 214 into law, providing for the release of $23.0 million of funds collected from the tenth riverboat licensee since its opening during 2011. During July 2013, Arlington received $7.9 million as its share of the proceeds, of which $3.6 million was designated for Arlington purses. The remaining $4.2 million was recognized as miscellaneous other income in our Consolidated Statements of Comprehensive Income during the year ended December 31, 2013. No additional proceeds related to future funds of the tenth riverboat are expected to be distributed to Illinois racetracks under the provisions of House Bill 214.

Purse Recapture

Pursuant to the Illinois Horse Racing Act, Arlington and all other Illinois racetracks are permitted to receive a payment commonly known as purse recapture. Generally, in any year that wagering on Illinois horse races at Arlington is less than 75% of wagering both in Illinois and at Arlington on Illinois horse races in 1994, Arlington is permitted to receive 2% of the difference in wagering in the subsequent year. The payment is funded from the Arlington purse account. Under the Illinois Horse Racing Act, the Arlington purse account is to be repaid via an appropriation by the Illinois General Assembly from the Illinois General Revenue Fund. However, this appropriation has not been made since 2001. Subsequently, Illinois horsemen unsuccessfully petitioned the IRB to prevent Illinois racetracks from receiving this payment in any year that the Illinois General Assembly did not appropriate the repayment to the racetrack's purse accounts from the General Revenue Fund. Further, the Illinois horsemen filed lawsuits seeking, among other things, to block payment to Illinois racetracks, as well as to recover the 2002 and 2003 amounts already paid to the Illinois racetracks. These lawsuits filed by the Illinois horsemen challenging the 2002 and 2003 reimbursements have been resolved in favor of Arlington and the other Illinois racetracks. Several bills were filed in the 2003, 2004, 2005 and 2009 sessions of the Illinois legislature that, in part, would eliminate the statutory right of Arlington and the other Illinois racetracks to continue to receive this payment. None of these bills passed. Since the statute remains in effect, Arlington continues to receive the recapture payment from the purse account. If Arlington loses the statutory right to receive this payment, there could be a material, adverse impact on our business, financial condition and results of operations.

Host Days

During January, February and a portion of March each year, when there is no live racing in Illinois, the IRB designates a thoroughbred racetrack as the host track in Illinois, for which the host track receives a higher percentage of earnings from pari-mutuel wagering activity throughout Illinois. In January 2014, the IRB appointed Arlington the host track in Illinois for 23 simulcast host days, which is a decrease of three simulcast host days compared to the same period of 2013, but awarded Arlington three additional live host days during 2014, as compared to the prior year. The total host day allocation awarded to Arlington during 2014 did not change from the prior year. Arlington's future designation as the host track is subject to the annual designation by the IRB. A change in the number of days that Arlington is designated host track could have a material, adverse impact on our business, financial condition and results of operations.

<u>Ohio</u>

Gaming Legislation

In November 2009, Ohio voters passed a referendum to allow four casinos in Ohio, with opening dates from 2012 through 2013. On June 28, 2011, both houses of the Ohio General Assembly passed House Bill 277 ("HB 277") allowing all seven state racetracks to apply for video lottery licenses. The Governor of Ohio signed HB 277 into law on July 15, 2011. In addition, on June 23, 2011, the Ohio legislature passed legislation allowing the relocation of Ohio racetracks with video lottery terminal licenses. In October 2011, the Ohio Roundtable filed a lawsuit seeking to prevent racetracks from relocating and prohibiting video lottery terminals. In May 2012, the Common Pleas Court ruled against the Ohio Roundtable, indicating it did not have legal standing to sue the State over the 2011 ruling. On June 28, 2012, the Ohio Roundtable filed an appeal against this ruling. Oral arguments on the appeal were heard by the Franklin County Court of Appeals on January 17, 2013. In March 2013, the Ohio Tenth Circuit Court of Appeals upheld the lower court's ruling, at which time the Ohio Roundtable appealed the appellate court ruling to the Ohio Supreme Court. On July 24, 2013, the Ohio Supreme Court agreed to hear the matter. At this point, we do not know how this legislation or the related litigation could affect our business, financial condition and results of operations.

Internet Cafes

On June 4, 2013, House Bill 7, legislation designed to negatively impact the business model of Internet cafes by banning cash payouts and limiting prizes or vouchers redeemable for merchandise to not more than a $10 value, was signed into law by the Governor of Ohio. Implementation of the legislation was delayed until October 4, 2013. Opponents of House Bill 7 sought to repeal the law through a ballot referendum, but failed to collect the more than 231,000 signatures required for the referendum language to appear on the November 2014 statewide ballot. We believe the implementation of this legislation will have a positive impact on our business, financial condition and results of operations.

Florida

Internet Cafes

On April 4, 2013, the Governor of Florida signed House Bill 155 into law. This measure effectively bans the operation of Internet cafes in Florida. The legislation clarifies existing laws related to slot machines, charitable drawings, game promotions and amusement machines. Specifically, the law updates the definition of a slot machine to include systems or networks of devices and provides that machines used to simulate casino-style games are prohibited. The legislation further clarifies that charity organizations, adult arcades and for profit sweepstakes operators may not operate permanent gambling centers. We believe the implementation of this legislation will have a positive impact on our business, financial condition and results of operations.

Maine

Expanded Gaming

On September 27, 2013, the Maine Gaming Study Commission, whose statutorily defined mission is to examine the state's existing gaming market as well as assess expansion opportunities, voted to recommend gaming be expanded beyond the current market. Subsequent to the vote, the Commission was disbanded by the Chairman. During January 2014, the Veterans and Legal Affairs Committee, the legislative committee of jurisdiction for gaming related issues, considered legislation that would allow for further gaming expansion to occur in Maine. The Committee voted to negatively recommend to the House and Senate each of the proposed expanded gaming bills with the exception of a bill that, if approved, will allow up to three slot machines in an estimated 40 veterans halls throughout the state. At this time it is unclear to what extent this could impact our business, financial condition and results of operations.

New York

Gaming Legislation

In March 2012, the Governor of New York and legislative leaders agreed to legalize casino gaming and seek an amendment to the state constitution that would authorize such gaming in New York. On November 5, 2013 New York voters approved a constitutional amendment authorizing up to seven casinos in the state. An expansion of gaming in New York could include expanded incentives for the horse racing industry. This could affect our ability to attract horses and trainers and could have a material adverse impact on our business, financial condition and results of operations.

Significant Agreement

In November 2012, a resolution to award United Tote's existing tote contract with the New York Racing Association ("NYRA") to another totalisator company was postponed when the NYRA Board voted to study the issue. United Tote's existing contract with NYRA expired on September 2, 2013. On April 11, 2013, NYRA announced its intention to enter into a contract for totalisator services with another company. The loss of this agreement is not anticipated to materially affect our business, financial condition and results of operations.

ADW Wagering

In June 2013, legislation that creates a regulatory and taxation framework for ADW wagering passed the New York legislature as part of a broader expanded gaming bill. This legislation imposes a $20,000 license fee and a 5% of handle source market fee on ADW wagers placed by New York residents through multi-jurisdictional ADW providers. It is unclear to what extent such regulations could impact our business, financial condition and results of operations.

California

Exchange Wagering

During 2010, California became the first state to approve exchange wagering on horseracing at California racetracks. Exchange wagering differs from pari-mutuel wagering in that it allows customers to propose their own odds on certain types of wagers on horseracing, including betting that a horse may lose, which may be accepted by a second customer.

During 2012, the California Horse Racing Board (the "CHRB") heard testimony on exchange wagering and approved draft proposed exchange wagering regulations which were submitted for public comment. In November 2012, the CHRB granted approval for rules governing exchange wagering. The regulations were submitted to the Office of Administrative Law ("OAL") during February 2013 for review and final approval. On March 20, 2013, the OAL disapproved the proposed regulations. In June 2013, the CHRB approved and resubmitted the proposed regulations to the OAL, which approved the regulations during August 2013. However, the CHRB has not set a time frame for accepting applications or for the implementation of exchange wagering in California. Exchange wagering may have a negative impact on our current pari-mutuel operations, including our ADW business. Furthermore, California's approval of exchange wagering may set a precedent for other states to approve exchange wagering, creating additional risk of a negative impact on our pari-mutuel wagering business.

Internet Poker

On February 21, 2014, Senate Bill 1366 ("SB 1366") was introduced, which would allow Indian tribes and cardrooms to apply for a ten year license to operate Internet poker in the state. Under the terms of the legislation, the state would be allowed to opt-into or out of a federal Internet poker framework or enter into agreements to offer Internet poker across state boarders. Also introduced in February 21, 2014 was Assembly Bill 2291 ("AB 2291") which would allow qualified Indian tribes and cardrooms to apply for a ten year license. The proposed legislation would require the state to opt-out of any federally created Internet poker framework and would be precluded from entering into Internet poker agreements with other states or foreign jurisdictions. The potential effects of SB 1366 and AB 2291 on our business, financial condition and results of operations cannot be determined at this time.

In December 2012, Senate Bill 51 ("SB 51") was introduced in the California Senate. The legislation would allow qualified gaming companies to apply for a five-year gaming license to operate an intrastate Internet gaming website to registered players within California. The legislation limits online gaming to poker only. On February 22, 2013, Senate Bill 678 ("SB 678") was introduced which would also permit Internet poker within the state. The 2013 legislative session concluded without any significant movement on the issue. The potential effects of SB 51 and SB 678 on our business, financial condition and results of operations cannot be determined at this time.

Sports Betting

In February 2012, Senate Bill 1390 was introduced in the California Legislature. The legislation would have allowed all entities currently licensed to conduct gambling activities to apply to their regulatory agency and request that sports betting be added to their list of authorized gambling options. Indian tribes with existing casinos as well as tribes that did not currently have gaming compacts with the state would have been allowed to offer sports betting on their reservations. The bill was not considered prior to the adjournment of the 2012 legislative session. On February 7, 2013, Senate Bill 190 was introduced which would allow the operator of a gaming establishment, racetrack or satellite wagering facility to conduct wagering on professional and collegiate sports or athletic events upon licensing by the California Gaming Control Commission or California Horse Racing Board. Under the terms of the proposed bill, each licensed entity would remit 7.5% of its gross revenues to the state. The bill also authorizes a federally recognized Indian tribe that is not a gaming establishment or a racetrack to conduct sports wagering consistent with the requirements of the federal Indian Gaming Regulatory Act of 1988, under terms no more stringent than those applicable to any other operator in the state. The 2013 legislative session concluded without any significant action on the proposed bill. The potential effects of Senate Bill 190 on our business, financial condition and results of operations cannot be determined at this time.

Delaware

Gaming Legislation

During June 2012, the Delaware Gaming Competitiveness Act of 2012 ("HB 333") was passed by the Delaware Legislation and signed into law by the Governor of Delaware. HB 333 enables Delaware casinos to offer a full range of legal online gambling options including Internet blackjack, poker and slots which are accessible through each casino's website and controlled centrally by the state lottery. Under the terms of HB 333, Delaware's existing racetracks will be able to offer online games via their websites. The legislation expands locations for National Football League wagering and keno. Individuals must be present in Delaware to play online games. The potential impact of HB 333 on our business, financial condition and results of operations cannot be determined at this time.

New Jersey

Atlantic City Wagering

During February 2012, Assembly Bill 2578 ("AB 2578") was introduced into the New Jersey legislature. AB 2578 allows Atlantic City casinos to offer Internet wagering on all casino-style games to persons present in New Jersey. The New Jersey horseracing industry was excluded from the bill's language and is ineligible to participate as Internet providers, subcontractors, or beneficiaries of the anticipated revenue. AB 2578 passed both legislative chambers during 2012. On February 26, 2013, Governor Christie signed AB 2578 into law. During October 2013, the New Jersey Division of Gaming Enforcement announced casino licensed Internet gaming permit holders may offer full Internet gaming beginning on November 26, 2013. On November 26, 2013, six online gaming operators began offering real-money Internet wagering in New Jersey. The potential impact of this authorization on our business, financial condition and results of operation cannot be determined at this time.

Sports Betting

During 2011, New Jersey voters passed a non-binding referendum permitting sports betting in New Jersey. During 2012, legislation authorizing sports betting in Atlantic City casinos and at racetracks passed the House and Senate legislatures and was signed by Governor Christie. The National Football League, National Basketball Association, National Hockey League and National Collegiate Athletic Association have filed suit against the state to prohibit them from moving forward with the legislation, citing a federal ban against sports betting. On December 21, 2012, a federal judge denied New Jersey's request to have the lawsuit dismissed. The judge agreed that expanding legal sports betting into New Jersey would negatively impact the perception of sporting games. The New Jersey Division of Gaming Enforcement issued final sports betting regulations, but the Division noted that no license would be issued prior to January 2013. The potential impact of sports betting in New Jersey on our business, financial condition and results of operation cannot be determined at this time.

Pennsylvania

On November 22, 2013, Senate Bill 1188 was introduced for consideration during the 2014 legislative session. The bill contains provisions specifically related to racing oversight as well as provides authority to the Pennsylvania Gaming Board to grant licensure allowing Pennsylvania racetracks to operate their own ADW business. The potential impact of this bill on our business, financial condition and results of operation cannot be determined at this time.

On July 3, 2013, House Bill 465 was passed by the Pennsylvania legislation and signed by the Governor of Pennsylvania. This legislation establishes a 10% tax on all wagers placed through nonlicensed Pennsylvania based advance deposit wagering providers. It is unclear to what extent such regulations could impact our business, financial condition and results of operations.

L. Environmental Matters

We are subject to various federal, state and local environmental laws and regulations that govern activities that may have adverse environmental effects, such as discharges to air and water, as well as the management and disposal of solid, animal and hazardous wastes and exposure to hazardous materials. These laws and regulations, which are complex and subject to change, include United States Environmental Protection Agency and state laws and regulations that address the impacts of manure and wastewater generated by Concentrated Animal Feeding Operations ("CAFO") on water quality, including, but not limited to, storm water discharges. CAFO regulations include permit requirements and water quality discharge standards. Enforcement of CAFO regulations has been receiving increased governmental attention. Compliance with these and other environmental laws can, in some circumstances, require significant capital expenditures. For example, we may incur future costs under existing and new laws and regulations pertaining to storm water and wastewater management at our racetracks. Moreover, violations can result in significant penalties and, in some instances, interruption or cessation of operations.

In the ordinary course of our business, we at times receive notices from regulatory agencies regarding our compliance with CAFO regulations that may require remediation at our facilities. On December 6, 2013, we received a notice from the United States Environmental Protection Agency regarding alleged CAFO non-compliance at Fair Grounds. While our analysis is still preliminary at this time, we do not expect that remediating these items will cause a disruption in our operations at Fair Grounds, although it may require us to incur certain capital expenditures costs which we do not expect to be material.

We also are subject to laws and regulations that create liability and cleanup responsibility for releases of hazardous substances into the environment. Under certain of these laws and regulations, a current or previous owner or operator of property may be liable for the costs of remediating hazardous substances or petroleum products on its property, without regard to whether the owner or operator knew of, or caused, the presence of the contaminants, and regardless of whether the practices that resulted in the contamination were legal at the time they occurred. The presence of, or failure to remediate properly, such substances may materially adversely affect the ability to sell or rent such property or to borrow funds using such property as collateral. Additionally, the owner of a property may be subject to claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

Compliance with environmental laws has not materially affected our ability to develop and operate our properties, and we are not otherwise subject to any material compliance costs in connection with federal or state environmental laws.

M. Service Marks and Internet Properties

We hold numerous state and federal service mark registrations on specific names and designs in various categories including the entertainment business, apparel, paper goods, printed matter, housewares and glass. We license the use of these service marks and derive revenue from such license agreements.

N. Employees

As of December 31, 2013, we employed approximately 2,600 full-time employees Company-wide. Due to the seasonal nature of our live racing business, the number of seasonal and part-time persons employed will vary throughout the year. During 2013, average full-time and seasonal employment per pay period was approximately 4,350 individuals Company-wide.

O. Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and other Securities and Exchange Commission ("SEC") filings, and any amendments to those reports and any other filings that we file with or furnish to the SEC under the Securities Exchange Act of 1934 are made available free of charge on our website (www.churchilldownsincorporated.com) as soon as reasonably practicable after we electronically file the materials with the SEC and are also available at the SEC's website at www.sec.gov. These reports may also be obtained from the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at (800) SEC-0330.

ITEM 1A. RISK FACTORS

Risks Related to the Company

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to our industry and Company could materially impact our future performance and results. The factors described below are the most significant risks that could materially impact our business, financial condition and results of operations.

General economic trends are unfavorable

The recent, economic downturn and adverse conditions in local, regional, national and global markets, including the current sovereign debt crises, have negatively impacted our operations and may continue to do so for an indeterminate period of time. Although economic conditions improved somewhat in 2012 and 2013, there remains risk that the recovery will be short-lived, that the recovery may not include the industries or markets in which we operate, or the downturn may resume. Our access to, or cost of, credit may be impacted to the extent global and U.S. credit markets are affected by downward trends. Additionally, our ability to respond to periods of economic contraction may be limited, as certain of our costs remain fixed or even increase, when revenues decline. Accordingly, any persistence of poor economic conditions, or further deterioration, could have a material, adverse impact on our business, financial condition and results of operations.

Our business is sensitive to consumer confidence and reductions in consumers' discretionary spending, which may result from the recent economic conditions, unemployment levels and other changes we cannot accurately predict

Demand for entertainment and leisure activities is sensitive to consumers' disposable incomes, which have been adversely affected by recent economic conditions and the persistence of elevated levels of unemployment. Further declines in the residential real estate market, higher energy and transportation costs, changes in consumer confidence, increases in individual tax rates, and other factors that we cannot accurately predict may reduce the disposable income of our customers. This could result in fewer patrons visiting our racetracks, gaming and wagering facilities and online wagering sites, and may impact our customers' ability to wager with the same frequency and maintain their wagering level profiles. Decreases in consumer discretionary spending could affect us even if it occurs in other markets. For example, reduced wagering levels and profitability at racetracks from which we carry racing content could cause certain racetracks to cancel races or cease operations and therefore reduce the content we could provide to our customers. Accordingly, any significant loss of customers or decline in wagering could have a material adverse impact on our business, financial condition and results of operations.

We are vulnerable to additional or increased taxes and fees

We believe that the prospect of raising significant additional revenue through taxes and fees is one of the primary reasons that certain jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to the normal federal, state, provincial and local income taxes, and such taxes and fees may be increased at any time. From time to time, legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. Moreover, many states and municipalities, including ones in which we operate, are currently experiencing budgetary pressures that may make it more likely they would seek to impose additional taxes and fees on our operations. It is not possible to determine with certainty the likelihood of any such changes in tax laws or fee increases, or their administration; however, if enacted, such changes could have a material adverse effect on our business, financial condition and results of operations.

Our debt facilities contain restrictions that limit our flexibility in operating our business

Our debt facilities contain, and any future indebtedness of ours would likely contain, a number of covenants that impose significant operating and financial restrictions on us, including restrictions on our and our subsidiaries' ability to, among other things:

- incur additional debt or issue certain preferred shares;
- pay dividends on or make distributions in respect of our capital stock, repurchase common shares or make other restricted payments;
- make certain investments;
- sell certain assets or consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- create liens on certain assets;
- enter into certain transactions with our affiliates; and
- designate our subsidiaries as unrestricted subsidiaries.

As a result of these covenants, we are limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs.

We have pledged and will pledge a significant portion of our assets as collateral under our debt facilities. If any of these lenders accelerate the repayment of borrowings, there can be no assurance that we will have sufficient assets to repay our indebtedness and our lenders could proceed against the collateral we have granted them.

Under our debt facilities, we are required to satisfy and maintain specified financial ratios. Our ability to meet those financial ratios can be affected by events beyond our control, and there can be no assurance that we will meet those ratios. A failure to comply with the covenants contained in our debt facilities or our other indebtedness could result in an event of default under the facilities or the existing agreements, which, if not cured or waived, could have a material adverse impact on our business, financial condition and results of operations. In the event of any default under our debt facilities or our other indebtedness, the lenders thereunder:

- will not be required to lend any additional amounts to us;
- could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due and payable and terminate all commitments to extend further credit; or
- require us to apply all of our available cash to repay these borrowings.

If the indebtedness under our debt facilities or our other indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay such indebtedness in full.

We may not be able to identify and complete acquisition, expansion or divestiture projects on time, on budget or as planned

We expect to pursue expansion, acquisition and divestiture opportunities, and we regularly evaluate opportunities for development, including acquisitions or other strategic corporate transactions which may expand our business operations.

We could face challenges in identifying development projects that fit our strategic objectives, identifying potential acquisition or divestiture candidates and/or development partners, finding buyers, negotiating projects on acceptable terms, and managing and integrating the acquisition or development projects. The integration of new operations and any other properties we may acquire or develop will require the dedication of management resources that may temporarily divert attention from our day-to-day business. The process of integrating new properties or projects may also interrupt the activities of those businesses, which could have a material, adverse impact on our business, financial condition and results of operations. The divestiture of existing businesses may be affected by our ability to identify potential buyers. Furthermore, current or future regulation may postpone a divestiture pending certain resolutions to federal, state or local legislative issues. We cannot assure that any new properties or developments will be completed or integrated successfully.

Management of new properties or business operations, especially those in new lines of business or different geographic areas, may require that we increase our managerial resources. We cannot assure that we will be able to manage the combined operations effectively or realize any of the anticipated benefits of our acquisitions or developments.

We may experience difficulty in integrating recent or future acquisitions into our operations

We have completed acquisition transactions in the past and we may pursue acquisitions from time to time in the future. The successful integration of newly acquired businesses, including our recent acquisitions of Oxford and Riverwalk, into our operations has required and will continue to require the expenditure of substantial managerial, operating, financial and other resources and may also lead to a diversion of our attention from our ongoing business concerns. We may not be able to successfully integrate new businesses or realize projected revenue gains, cost savings and synergies in connection with those acquisitions on the timetable contemplated, if at all. Furthermore, the costs of integrating businesses we acquire could significantly impact our short-term operating results. These costs could include:

- restructuring charges associated with the acquisitions;
- non-recurring acquisition costs, including accounting and legal fees, investment banking fees and recognition of transaction-related costs or liabilities; and
- costs of imposing financial and management controls (such as compliance with Section 404 of the Sarbanes-Oxley Act of 2002) and operating, administrative and information systems.

Although we perform financial, operational and legal diligence on the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual condition of these businesses and our ability to continue to operate them successfully and integrate them into our existing operations. In any acquisition we make, we face risks which include:

- the risk that the acquired business may not further our business strategy or that we paid more than the business was worth;
- the potential adverse impact on our relationships with partner companies or third-party providers of technology or products;
- the possibility that we have acquired substantial undisclosed liabilities for which we may have no recourse against the sellers or third party insurers;
- costs and complications in maintaining required regulatory approvals or obtaining further regulatory approvals necessary to implement the acquisition in accordance with our strategy;
- the risks of acquiring businesses and/or entering markets in which we have limited or no prior experience;
- the potential loss of key employees or customers;
- the possibility that we may be unable to retain or recruit managers with the necessary skills to manage the acquired businesses; and
- changes to legal and regulatory guidelines, which may negatively affect acquisitions.

If we are unsuccessful in overcoming these risks, it could have a material adverse impact on our business, financial condition and results of operations.

<u>We may adversely infringe on the intellectual property rights of others</u>

In the course of our business, we may become aware of potentially relevant patents or other intellectual property rights held by other parties. Many of our competitors as well as other companies and individuals have obtained, and may obtain in the future, patents or other intellectual property rights that concern products or services related to the types of products and services we currently offer or may plan to offer in the future. We evaluate the validity and applicability of these intellectual property rights and determine in each case whether we must negotiate licenses to incorporate or use the proprietary technologies in our products. Claims of intellectual property infringement may also require us to enter into costly royalty or license agreements. However, we may not be able to obtain royalty or license agreements on terms acceptable to us or at all. We also may be subject to significant damages or injunctions against the development and sale of our products and services if we become subject to litigation relating to intellectual property infringement.

Our results may be affected by the outcome of litigation within our industry and the protection and validity of our intellectual property rights. Any litigation regarding patents or other intellectual property could be costly and time consuming and could divert our management and key personnel from our business operations. The complexity of the technology involved and the uncertainty of litigation surrounding it has the effect of increasing the risks associated with certain of our product offerings, particularly in the area of advance deposit wagering, or ADW. There can be no assurance that we would not become a party to litigation surrounding our ADW business or that such litigation would not cause us to suffer losses or disruption in our business strategy.

<u>We are susceptible to unauthorized disclosure of our source code</u>

We may not be able to protect our computer source code from being copied if there is an unauthorized disclosure of source code. We take significant measures to protect the secrecy of large portions of our source code. If unauthorized disclosure of a significant portion of our source code occurs, we could potentially lose future trade secret protection for that source code. This could make it easier for third parties to compete with our products by copying functionality; which could adversely affect our revenue and operating margins. Unauthorized disclosure of source code also could increase security risks.

We depend on key personnel

Our continued success and our ability to maintain our competitive position is largely dependent upon, among other things, the skills and efforts of our senior executives and management team including Robert L. Evans, our Chairman of the Board and Chief Executive Officer. Although we have entered into employment agreements with certain of our senior executives and key personnel, we cannot guarantee that these individuals will remain with us, and their retention is affected by the competitiveness of our terms of employment and our ability to compete effectively against other gaming companies. In addition, certain of our key employees are required to file applications with the gaming authorities in each of the jurisdictions in which we operate and are required to be licensed or found suitable by these gaming authorities. If the gaming authorities were to find a key employee unsuitable for licensing, we may be required to sever the employee relationship. Furthermore, the gaming authorities may require us to terminate the employment of any person who refuses to file appropriate applications. Either result could significantly impair our operations. Our inability to retain key personnel could have a material, adverse impact on our business, financial condition and results of operations.

Catastrophic events could cause a significant and continued disruption to our operations

A disruption or failure in our systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack or other catastrophic event could interrupt our operations, damage our properties and reduce the number of customers who visit our facilities in the affected areas. For example, Churchill Downs, Harlow's, Riverwalk, Fair Grounds and its related OTBs and Calder could all be adversely affected by flooding or hurricanes. While we maintain insurance coverage that may cover certain of the costs that we incur as a result of some natural disasters, our coverage is subject to deductibles, exclusions and limits on maximum benefits. There can be no assurance that we will be able to fully collect, if at all, on any claims resulting from extreme weather conditions or other disasters. If any of our properties are damaged or if their operations are disrupted or face prolonged closure as a result of natural disasters in the future, or if natural disasters adversely impact general economic or other conditions in the areas in which our properties are located or from which they draw their patrons, the disruption could have a material, adverse impact on our business, financial condition and results of operations.

Although we have "all risk" property insurance coverage for our operating properties, which covers damage caused by a casualty loss (such as fire, natural disasters, acts of war, or terrorism), each policy has certain exclusions. Our level of property insurance coverage, which is subject to policy maximum limits, may not be adequate to cover all losses in the event of a major casualty. In addition, certain casualty events may not be covered at all under our policies. Therefore, certain acts could expose us to substantial uninsured losses.

We renew our insurance policies on an annual basis. The cost of coverage may become so high that we may need to further reduce our policy limits or agree to certain exclusions from our coverage.

Our debt instruments and other material agreements require us to meet certain standards related to insurance coverage. Failure to satisfy these requirements could result in an event of default under these debt instruments or material agreements.

Work stoppages and other labor problems could negatively impact our future plans

Some of our employees are represented by labor unions. A strike or other work stoppage at one of our properties could have an adverse effect on our business and results of operations. From time to time, we have also experienced attempts to unionize certain of our non-union employees. We cannot provide any assurance that we will not experience additional and more successful union activity in the future.

We process, store and use personal information and other data, which subjects us to governmental regulation and other legal obligations related to privacy, and our actual or perceived failure to comply with such obligations could harm our business

We receive, store and process personal information and other customer data. There are numerous federal, state and local laws regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other data. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to customers or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other player data, may result in governmental enforcement actions, litigation or public statements against us by consumer advocacy groups or others and could cause our customers to lose trust in us, which could have an adverse effect on our business. While the Company maintains insurance coverage specific to cyber-insurance matters, any failure on our part to maintain adequate safeguards may subject us to significant liabilities. Additionally, if third parties we work with, such as vendors, violate applicable laws or our policies, such violations may also put our customers' information at risk and could in turn have an adverse effect on our business. The Company is also subject to payment card association rules and obligations under its contracts with payment card processors. Under these rules and obligations, if information is compromised, the Company could be liable to payment card issuers for the associated expense and penalties. In addition, if the Company fails to follow payment card industry security standards, even if no customer information is compromised, the Company could incur significant fines or experience a significant increase in payment card transaction costs.

In the area of information security and data protection, many states have passed laws requiring notification to customers when there is a security breach for personal data, such as the 2002 amendment to California's Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to practically implement. The costs of compliance with these laws may increase in the future as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws may subject us to significant liabilities.

Improper disclosure of personal data could result in liability and harm to our reputation

We store and process increasingly large amounts of personally identifiable information of our customers, which may include names, addresses, phone numbers, social security numbers, email addresses, contact preferences and payment account information. For example, we store personal information from TwinSpires.com account holders, from our gaming customers' rewards accounts and from ticket sales at our racetracks. It is possible our security controls over personal data, our training of employees and vendors on data security, and other practices we follow may not prevent the improper disclosure of personally identifiable information. Improper disclosure of this information could harm our reputation, lead to legal exposure to customers or subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue.

Our business is subject to online security risk, including security breaches

We store and transmit users' proprietary information, and security breaches could expose us to a risk of loss or misuse of this information, litigation and potential liability. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems, change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, public perception of the effectiveness of our security measures could be harmed and we could lose users and be exposed to litigation or potential liability for us. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third party vendor, such measures cannot provide absolute security.

We are subject to payment-related risks, such as risk associated with the fraudulent use of credit or debit cards, which could have adverse effects on our business or results of operations due to chargebacks from customers

We allow funding and payments to accounts using a variety of methods, including electronic funds transfer ("EFT"), and credit and debit cards. As we continue to introduce new funding or payment options to our players, we may be subject to additional regulatory and compliance requirements. We also may be subject to the risk of fraudulent use of credit or debit cards, or other funding and/or payment options. For certain funding or payment options, including credit and debit cards, we may pay interchange and other fees, which may increase over time and, therefore, raise operating costs and reduce profitability. We rely on third parties to provide payment processing services and it could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to rules and requirements governing EFT, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees or possibly lose our ability to accept credit, debit cards, or other forms of payment from customers, which could have a material adverse effect on our business, financial condition and results of operations.

Chargebacks occur when customers seek to void credit card or other payment transactions. Cardholders are intended to be able to reverse card transactions only if there has been unauthorized use of the card or the services contracted for have not been provided. In our business, customers occasionally seek to reverse their online gaming losses through chargebacks. Although we place great emphasis on control procedures to protect from chargebacks, these control procedures may not be sufficient to protect us from adverse effects on our business or results of operations.

Any violation of the Foreign Corrupt Practices Act or applicable anti-money laundering regulations could have a negative impact on us

We are subject to regulations imposed by the Foreign Corrupt Practices Act (the "FCPA"), which generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business. Any violation of FCPA regulations could have a material, adverse impact on our business, financial condition and results of operations.

We also deal with significant amounts of cash in our operations and are subject to various reporting and anti-money laundering regulations. Any violation of anti-money laundering laws or regulations by any of our properties could have a material, adverse impact on our business, financial condition and results of operations.

A lack of confidence in the integrity of our core businesses could affect our ability to retain our customers and engage with new customers

The integrity of the horseracing, gaming and pari-mutuel wagering industries must be perceived as fair to patrons and the public at large. To prevent cheating or erroneous payouts, the necessary oversight processes must be in place to ensure that such activities cannot be manipulated. A loss of confidence in the fairness of our industries could significantly lower attendance, amounts wagered and reduce revenues.

Risks Related to Our Racing Operations

Our racing operations are highly regulated, and changes in the regulatory environment could adversely affect our business

Our racing business is subject to extensive state and local regulation, and we depend on continued state approval of legalized gaming in states where we operate. Our wagering and racing facilities must meet the licensing requirements of various regulatory authorities, including authorities in Kentucky, Illinois, Louisiana and Florida. To date, we have obtained all governmental licenses, registrations, permits and approvals necessary for the operation of our racetracks. However, we may be unable to maintain our existing licenses. The failure to attain, loss of or material change in our racing business licenses, registrations, permits or approvals may materially limit the number of races we conduct, and could have a material adverse impact on our business, financial condition and results of operations.

In addition to licensing requirements, state regulatory authorities can have a significant impact on the operation of our business. For example, in Florida, a thoroughbred racetrack conducting a live meet has control over hosting out-of-state racing signals and receives commissions on wagers placed at other racetracks throughout the state. When two thoroughbred racetracks operate live meets concurrently, both have the opportunity to be the “host track” for out-of-state signals, and other Florida racetracks must choose a single live racetrack to host their pari-mutuel wagering. Historically, Calder was the only live racetrack in Florida for the majority of its racing season. However, during 2013 Calder and Gulfstream Park began simultaneously conducting live thoroughbred racing, in certain months, and this overlapping of live racing resulted in direct competition for on-track horseracing, in the intrastate and interstate simulcast markets and for horses in South Florida, which negatively affected Calder’s ability to achieve full field horse races and to generate handle on live racing, as further described in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments" of this Annual Report on Form 10-K. Likewise, in Illinois the IRB has the authority to designate racetracks as “host track” for the purpose of receiving host track revenues generated during periods when no racetrack is conducting live races. Racetracks that are designated as “host track” obtain and distribute out of state simulcast signals for the State of Illinois. Under Illinois law, the “host track” is entitled to a larger portion of commissions on the related pari-mutuel wagering. Should Arlington or Calder cease to be as “host tracks” during these periods, the loss of hosting revenues could have an adverse impact on our business, financial condition and results of operations. In addition, Arlington is statutorily entitled to recapture as revenues monies that are otherwise payable to Arlington’s purse account. These statutorily or regulatory established revenue sources are subject to change every legislative session, and their reduction or elimination could have an adverse impact on our business, financial condition and results of operations.

We are also subject to a variety of other rules and regulations, including zoning, environmental, construction and land-use laws and regulations governing the serving of alcoholic beverages. If we are not in compliance with these laws, it could have a material, adverse effect on our business, financial condition and results of operations.

Economic trends specific to the horse racing industry are unfavorable

Horseracing and related activities, as well as the gaming services we provide, are similar to other leisure activities in that they represent discretionary expenditures likely to decline during economic downturns. In some cases, even the perception of an impending economic downturn or the continuation of a recessionary climate can be enough to discourage consumers from spending on leisure activities. These economic trends can impact the financial viability of other industry constituents, making collection of amounts owed to us uncertain. For example, during the year ended December 31, 2010, we recognized $1.1 million of bad debt expense, net of purses, resulting from the bankruptcy filing of New York City Off-Track Betting Corporation (“NYCOTB”). During 2009, NYCOTB filed for Chapter 9 bankruptcy and on January 25, 2011, its Chapter 9 bankruptcy case was dismissed by the United States Bankruptcy Court for the Southern District of New York, and NYCOTB ceased operations. We will continue to closely monitor participants’ operational viability within the industry and any related collection issues which could potentially have a material, adverse impact on our business, financial condition or results of operations.

Our racing business faces significant competition, and we expect competition levels to increase

All of our racetracks face competition from a variety of sources, including spectator sports and other entertainment and gaming options. Competitive gaming activities include traditional and Native American casinos, video lottery terminals, state-sponsored lotteries and other forms of legalized and non-legalized gaming in the U.S. and other jurisdictions, and we expect the number of competitors to increase. See subheading "J. Competition" in Item 1. "Business" of this Annual Report on Form 10-K for further discussion of racing industry competition.

All of our racetracks face competition in the simulcast market. Approximately 43,830 thoroughbred horse races are conducted annually in the United States. Of these races, we host approximately 3,560 races each year, or about 8.1% of the total. As a content provider, we compete for wagering dollars in the simulcast market with other racetracks conducting races at or near the same times as our races. As a racetrack operator, we also compete with other racetracks running live meets at or near the same time as our horse races. In recent years, this competition has increased as more states have allowed additional, automated gaming activities, such as slot machines, at racetracks with mandatory purse contributions.

Calder Race Course faces direct competition from another thoroughbred racetrack in Miami, Florida. The two racetracks are located approximately 6.5 miles apart. Under Florida law, racetracks are permitted to race throughout the year, subject to an annual notification filed with the State of Florida on February 28th of each year. As a result, Calder and the other racetrack, respectively, may independently elect to host live races on the same days. Historically, hosting live races on the same day as the other track has had a material, adverse impact on our business, financial condition and results of operations. On July 6, 2013, Calder and a competing racetrack conducted their first simultaneous live racing performances, and both racetracks are scheduled to continue to overlap live racing on certain dates through, at least, June 2014. Hosting live races on the same day as the other track has had a material, adverse impact on our business, financial condition and results of operations at Calder.

Competition from web-based businesses presents additional challenges for our racing business. Unlike most online and web-based gaming companies, our racetracks require significant and ongoing capital expenditures for both their continued operations and expansion. Our racing business also faces significantly greater costs in operating our racing business compared to costs borne by these gaming companies. Our racing business cannot offer the same number of gaming options as online and Internet-based gaming companies. Many online and web-based gaming companies are based off-shore and avoid regulation under U.S. state and federal laws. These companies may divert wagering dollars from pari-mutuel wagering venues, such as our racetracks. Our inability to compete successfully with these competitors could have a material, adverse impact on our business, financial condition and results of operations.

The popularity of horse racing is declining

There has been a general decline in the number of people attending and wagering on live horse races at North American racetracks due to a number of factors, including increased competition from other wagering and entertainment alternatives as discussed above. According to industry sources, pari-mutuel handle declined 27% from 2007 to 2011 and generated annual increases of 1% during each of 2012 and 2013. We believe lower interest in racing may have a negative impact on revenues and profitability in our racing business, as well as our ADW business, which is dependent on racing content provided by our racing business and other track operators. Our business plan anticipates that we will attract new customers to our racetracks, OTBs and ADW operations. A continued decrease in attendance at live events and in on-track wagering, or a continued generalized decline in interest in racing, could have a material, adverse impact on our business, financial condition and results of operations.

Our racing business is geographically concentrated and experiences significant seasonal fluctuations in operating results

We conduct our racing business at four racetracks: Churchill Downs, Calder, Fair Grounds and Arlington. A significant portion of our racing revenues are generated by two events, the Kentucky Derby and the Kentucky Oaks. If a business interruption were to occur and continue for a significant length of time at any of our four racetracks, particularly one occurring at Churchill Downs at a time that would affect the Kentucky Derby or Kentucky Oaks, it could have a material, adverse impact on our business, financial condition and results of operations.

In addition, we experience significant fluctuations in quarterly and annual operating results due to seasonality and other factors. We have a limited number of live racing days at our racetracks, and the number of live racing days varies from year to year. The number of live racing days we are able to offer directly affects our results of operations. A significant decrease in the number of live racing days and/or live races, including the Kentucky Derby and Kentucky Oaks, could have a material, adverse impact on our business, financial condition and results of operations.

We may not be able to attract a sufficient number of horses and trainers to achieve full field horseraces

We believe that patrons prefer to wager on races with a large number of horses, commonly referred to as full fields. A failure to offer races with full fields results in less wagering on our horseraces. Our ability to attract full fields depends on several factors. It depends on our ability to offer and fund competitive purses and it also depends on the overall horse population available for racing. Various factors have led to declines in the horse population in certain areas of the country, including competition from racetracks in other areas, increased costs and changing economic returns for owners and breeders, and the spread of various debilitating and contagious equine diseases such as the neurologic form of Equine Herpes Virus-I and Strangles. If any of our racetracks is faced with a sustained outbreak of a contagious equine disease, it would have a material impact on our profitability. Finally, if we are unable to attract horse owners to stable and race their horses at our racetracks by offering a competitive environment, including improved facilities, well-maintained racetracks, better conditions for backstretch personnel involved in the care and training of horses stabled at our racetracks and a competitive purse structure, our profitability could also decrease.

We also face increased competition for horses and trainers from racetracks that are licensed to operate slot machines and other electronic gaming machines that provide these racetracks an advantage in generating new additional revenues for race purses and capital improvements. For example, Churchill Downs and Arlington are experiencing heightened competition from racinos in Indiana, Pennsylvania, Delaware and West Virginia whose purses are supplemented by gaming revenues. The opening of the Genting New York Resort at Aqueduct racetrack has enhanced the purse structure at New York racetracks as compared to historical levels. Ohio has authorized four land-based casinos by voter referendum and video lottery terminals at seven Ohio racetracks through executive order. Our failure to attract full fields could have a material, adverse impact on our business, financial condition and results of operations.

Inclement weather and other conditions may affect our ability to conduct live racing

Since horseracing is conducted outdoors, unfavorable weather conditions, including extremely high and low temperatures, high winds, storms, tornadoes and hurricanes, could cause events to be canceled and/or attendance to be lower, resulting in reduced wagering. Our operations are subject to reduced patronage, disruptions or complete cessation of operations due to weather conditions, natural disasters and other casualties. If a business interruption were to occur due to inclement weather and continue for a significant length of time at any of our racetracks, it could have a material, adverse impact on our business, financial condition and results of operations.

We depend on agreements with industry constituents including horsemen and other racetracks

The IHA, as well as various state racing laws, require that we have written agreements with the horsemen at our racetracks in order to simulcast races, and, in some cases, conduct live racing. Certain industry groups negotiate these agreements on behalf of the horsemen (the “Horsemen’s Groups”). These agreements provide that we must receive the consent of the Horsemen’s Groups at the racetrack conducting live races before we may allow third parties to accept wagers on those races. In addition, the agreements between other racetracks and their Horsemen’s Groups typically provide that those racetracks must receive consent from the Horsemen’s Groups before we can accept wagers on their races. For example, from time to time, the Thoroughbred Owners of California, the Horsemen’s Group representing horsemen in California, the Florida Horsemen’s Benevolent and Protective Association, Inc. (the “FHBPA”) which represents horsemen in Florida and the Kentucky Horsemen’s Benevolent and Protective Association (“KHBPA”) have withheld their consent to send or receive racing signals among racetracks. Further, the IHA and various state laws require that we have written agreements with Horsemen’s Groups at our racetracks in order to simulcast races on an export basis. In addition, our simulcasting agreements are generally subject to the consent of these Horsemen’s Groups. Failure to receive the consent of these Horsemen’s Groups for new and renewing simulcast agreements could have a material, adverse impact on our business, financial condition and results of operations.

We also have written agreements with the Horsemen’s Groups with regards to the proceeds of gaming machines in Louisiana and Florida. Florida law requires Calder to have an agreement with the FHBPA governing the contribution of a portion of revenues from slot machine gaming to purses on live thoroughbred races conducted at Calder and an agreement with the Florida Thoroughbred Breeders and Owners Association (the “FTBOA”) governing the contribution of a portion of revenues from slot machines gaming to breeders’, stallion, and special racing awards on live thoroughbred races conducted at Calder before Calder can receive a license to conduct slot machine gaming.

It is not certain that we will be able to maintain agreements with, or to obtain required consent from, Horsemen’s Groups. We currently negotiate formal agreements with the applicable Horsemen’s Groups at our racetracks on an annual basis. The failure to maintain agreements with, or obtain consents from, our horsemen on satisfactory terms or the refusal by a Horsemen’s Group to consent to third parties accepting wagers on our races or our accepting wagers on third parties’ races could have a material, adverse impact on our business, financial condition and results of operations.

In addition, we have agreements with other racetracks for the distribution of racing content through both the import of other racetracks’ signals for wagering at our properties and the export of our racing signal for wagering at other racetracks’ facilities. From time to time, we are unable to reach agreements on terms acceptable to us. As a result, we may be unable to distribute our racing content to other locations or to receive other racetracks’ racing content for wagering at our racetracks. The inability to distribute our racing content could have a material, adverse impact on our business, financial condition and results of operations.

Horse racing is an inherently dangerous sport and our racetracks are subject to personal injury litigation

Although we carry jockey accident insurance at each of our racetracks to cover personal jockey injuries which may occur during races or daily workouts, there are certain exclusions to our insurance coverage, and we are still subject to litigation from injured participants. We renew our insurance policies on an annual basis. The cost of coverage may become so high that we may need to further reduce our policy limits or agree to certain exclusions from our coverage. Our results may be affected by the outcome of litigation, as this litigation could be costly and time consuming and could divert our management and key personnel from our business operations.

Ownership and development of real estate requires significant expenditures and is subject to risk

Our racing operations require us to own extensive real estate holdings. All real estate investments are subject to risks including: general economic conditions, such as the availability and cost of financing; local and national real estate conditions, such as an oversupply of residential, office, retail or warehousing space, or a reduction in demand for real estate in the area; governmental regulation, including taxation of property and environmental legislation; and the attractiveness of properties to potential purchasers or tenants. The real estate industry is also capital intensive and sensitive to interest rates. Further, significant expenditures, including property taxes, mortgage payments, maintenance costs, insurance costs and related charges, must be made throughout the period of ownership of real property, which expenditures negatively impact our operating results.

In addition, we are subject to a variety of federal, state and local governmental laws and regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. Environmental laws and regulations could hold us responsible for the cost of cleaning up hazardous materials contaminating real property that we own or operate (or previously owned or operated) or properties at which we have disposed of hazardous materials, even if we did not cause the contamination. If we fail to comply with environmental laws or if contamination is discovered, a court or government agency could impose severe penalties or restrictions on our operations or assess us with the costs of taking remedial actions.

Our business depends on utilizing and providing totalisator services

Our customers utilize information provided by United Tote and other totalisator companies that accumulates wagers, records sales, calculates payoffs and displays wagering data in a secure manner to patrons who wager on our horseraces. The failure to keep technology current could limit our ability to serve patrons effectively or develop new forms of wagering and/or affect the security of the wagering process, thus affecting patron confidence in our product. A perceived lack of integrity in the wagering systems could result in a decline in bettor confidence and could lead to a decline in the amount wagered on horseracing. In addition, a totalisator system failure could cause a considerable loss of revenue if betting machines are unavailable for a significant period of time or during an event with high betting volume.

United Tote also has contracts to provide totalisator services to a significant number of racetracks, OTBs and other pari-mutuel wagering businesses. Its totalisator systems provide wagering data to the industry in a secure manner. Errors by United Tote technology or personnel may subject us to liabilities, including financial penalties under our totalisator service contracts, which could have a material, adverse impact on our business, financial condition and results of operations.

Risks Related to Our Gaming Business

Our gaming business is highly regulated and changes in the regulatory environment could adversely affect our business

Our gaming operations exist at the discretion of the states where we conduct business, and are subject to extensive state and local regulation. Like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses or registrations and have the suitability of certain of our directors, officers and employees approved. While we have obtained all governmental licenses, registrations, permits and approvals necessary for the operation of our gaming facilities, we cannot assure you that we will be able to obtain such renewals or approvals, or that we will be able to obtain future approvals that would allow us to continue to operate or to expand our gaming operations.

Regulatory authorities also have input into important aspects of our operations, including hours of operation, location or relocation of a facility, numbers and types of machines and loss limits. Regulators may also levy substantial fines against or seize our assets or the assets of our subsidiaries or the people involved in violating gaming laws or regulations. Any of these events could have an adverse effect on our business, financial condition and results of operations. The high degree of regulation in the gaming industry is a significant obstacle to our growth strategy.

Our gaming business faces significant competition, and we expect competition levels to increase

Our gaming operations operate in a highly competitive industry with a large number of participants, some of which have financial and other resources that are greater than our resources. The gaming industry faces competition from a variety of sources for discretionary consumer spending including spectator sports and other entertainment and gaming options. Our gaming operations also face competition from Native American casinos, video lottery terminals, state-sponsored lotteries and other forms of legalized gaming in the U.S. and other jurisdictions. We do not enjoy the same access to the gaming public or possess the advertising resources that are available to state-sponsored lotteries or other competitors, which may adversely affect our ability to compete effectively with them. Additionally, web-based interactive gaming and wagering is growing rapidly and affecting competition in our industry as federal regulations on web-based activities are clarified. We anticipate that competition will continue to grow in the web-based interactive gaming and wagering channels because of ease of entry. In addition, Florida legislators continue to debate the expansion of Florida gaming to include Las Vegas-style destination resort casinos. Such casinos may be subject to taxation rates lower than the current gaming taxation structure. Should such legislation be enacted, it could have a material, adverse impact on our business, financial condition and results of operations. See subheading "J. Competition" in Item 1. "Business" of this Annual Report on Form 10-K for further discussion of gaming industry competition.

Our gaming business is geographically concentrated

We conduct our gaming business at five principal locations: Oxford in Oxford, Maine, Riverwalk in Vicksburg, Mississippi, Harlow's in Greenville, Mississippi, Calder Casino in Miami Gardens, Florida, and Fair Grounds Slots in New Orleans, Louisiana. We also operate video poker machines throughout Louisiana through our subsidiary, VSI. If a business interruption were to occur and continue for a significant length of time at any of our principal gaming operations, or if economic or regulatory conditions were to become unfavorable in one or more of the regions in which they operate, it could have a material, adverse impact on our business, financial condition and results of operations.

The development of new gaming venues and the expansion of existing facilities is costly and susceptible to delays, cost overruns and other uncertainties

The Company may decide to develop, construct and open hotels, casinos or other gaming venues in response to opportunities that may arise. Future development projects and acquisitions may require significant capital commitments, the incurrence of additional debt, the incurrence of contingent liabilities and an increase in amortization expense related to intangible assets, which could have a material, adverse impact on our business, financial condition and results of operations.

The concentration and evolution of the slot machine manufacturing industry or other technological conditions could impose additional costs on us

The majority of our gaming revenues are attributable to slot and video poker machines operated by us at our casinos and wagering facilities. It is important for competitive reasons that we offer the most popular and up-to-date machine games with the latest technology to our guests. In recent years, the prices of new machines have escalated faster than the rate of inflation. In recent years, for example, slot machine manufacturers have frequently refused to sell slot machines featuring the most popular games, instead requiring participating lease arrangements in order to acquire the machines. Participation slot machine leasing arrangements typically require the payment of a fixed daily rental. Such agreements may also include a percentage payment of coin-in or net win. Generally, a participating lease is substantially more expensive over the long term than the cost to purchase a new machine. For competitive reasons, we may be forced to purchase new slot machines or enter into participating lease arrangements that are more expensive than the costs associated with the continued operation of our existing slot machines.

We materially rely on a variety of hardware and software products to maximize revenue and efficiency in our operations. Technology in the gaming industry is developing rapidly, and we may need to invest substantial amounts to acquire the most current gaming and hotel technology and equipment in order to remain competitive in the markets in which we operate. We rely on a limited number of vendors to provide video poker and slot machines and any loss of our equipment suppliers could impact our operations. Ensuring the successful implementation and maintenance of any new technology acquired is an additional risk.

Risks Related to Our Online Business

Our business strategy is premised, in part, on the legalization of online real money gaming in the United States and our ability to predict and capitalize on any such legalization

In the last few years, Delaware, Nevada, California, Florida, Mississippi, Hawaii, Massachusetts, New Jersey, Iowa, Illinois, Washington D.C. and the Federal government have considered legislation that would legalize online real money gaming. To date, only Nevada, Delaware and New Jersey have enacted such legislation. If a large number of additional states or the Federal government fail to enact online real money gaming legislation or we are unable to obtain the necessary licenses to operate online real money gaming websites in United States jurisdictions where such games are legalized, our future growth could be materially impaired. In addition, states or the Federal government may legalize online real money gaming in a manner that is unfavorable to us. For example, several states and the Federal government are considering draft laws that require online casinos to also have a license to operate a brick-and mortar casino, either directly or indirectly through an affiliate. If, like Nevada and New Jersey, state jurisdictions enact legislation legalizing online real money casino gaming subject to this brick-and-mortar requirement, we may be unable to offer online real money gaming in such jurisdictions if we are unable to establish an affiliation with a brick-and-mortar casino in such jurisdiction. There also exists in the online real money gaming industry a significant "first mover" advantage. Our ability to compete effectively in respect of a particular style of online real money gaming in the United States may be premised on introducing a style of gaming before our competitors. Failing to do so ("move first") could materially impair our ability to grow in the online real money gaming space. In addition to the risk that online real money gaming will be legalized in a manner unfavorable to us, we may fail to accurately predict when online real money gaming will be legalized in significant jurisdictions. The legislative process in each state and at the Federal level is unique and capable of rapid, often unpredictable change. If we fail to accurately forecast when and how, if at all, online real money gaming will be legalized in additional state jurisdictions, such failure could impair our readiness to introduce online real money gaming offerings in such jurisdictions, which could have a material adverse effect on our business, financial condition and results of operations.

<u>Our ADW business is highly regulated and changes in the regulatory environment could adversely affect our business</u>

TwinSpires, our ADW business, accepts advance deposit wagers from customers of certain states who set up and fund an account from which they may place wagers via telephone, mobile device or through the Internet at TwinSpires.com. The ADW business is heavily regulated, and laws governing advance deposit wagering vary from state to state. Some states have expressly authorized advance deposit wagering by their own residents, some states have expressly prohibited pari-mutuel wagering and/or advance deposit wagering and other states have expressly authorized pari-mutuel wagering but have neither expressly authorized nor expressly prohibited their residents from placing wagers through advance deposit wagering hubs located in different states. We believe that an ADW business may open accounts on behalf of and accept wagering instructions from residents of states where pari-mutuel wagering is legal and where providing wagering instructions to ADW businesses in other states is not expressly prohibited by statute, regulations, or other governmental restrictions. However, state attorneys general, regulators, and other law enforcement officials may interpret state gaming laws, federal statutes, constitutional principles, and doctrines, and the related regulations in a different manner than we do. In the past, certain state attorneys general and other law enforcement officials have expressed concern over the legality of interstate advance deposit wagering.

Our expansion opportunities with respect to advance deposit wagering may be limited unless more states amend their laws or regulations to permit advance deposit wagering. Conversely, if states take affirmative action to make advance deposit wagering expressly unlawful, this could have a material, adverse impact on our business, financial condition and results of operations. For example, previously existing ADW regulations in Illinois expired on December 31, 2012, and we ceased accepting wagers from Illinois residents in January 2013 until June 2013, when Illinois ADW regulations were extended. Furthermore, we ceased accepting wagers from Texas residents in September 2013, due to the enforcement of an existing Texas law prohibiting ADW wagering. In addition, the regulatory and legislative processes can be lengthy, costly and uncertain. We may not be successful in lobbying state legislatures or regulatory bodies to obtain or renew required legislation, licenses, registrations, permits and approvals necessary to facilitate the operation or expansion of our ADW business. From time to time, the United States Congress has considered legislation that would either inhibit or restrict Internet gambling in general or inhibit or restrict the use of certain financial instruments, including credit cards, to provide funds for advance deposit wagering.

Furthermore, many states have considered and are considering interactive and Internet gaming legislation and regulations, which may inhibit our ability to do business in such states. Anti-gaming conclusions and recommendations of other governmental or quasi-governmental bodies could form the basis for new laws, regulations, and enforcement policies that could have a material, adverse impact on our business, financial condition and results of operations. The extensive regulation by both state and federal authorities of gaming activities also can be significantly affected by changes in the political climate and changes in economic and regulatory policies. Such effects could have a material, adverse impact to the success of our advance deposit wagering operations.

<u>Our ADW business is subject to a variety of U.S. and foreign laws, many of which are unsettled and still developing and which could subject us to claims or otherwise harm our business</u>

We are subject to a variety of laws in the United States and abroad, including laws regarding gaming, consumer protection and intellectual property that are continuously evolving and developing. The scope and interpretation of the laws that are or may be applicable to us are often uncertain and may be conflicting. For example, laws relating to the liability of providers of online services for activities of their users and other third parties are currently being tested by a number of claims, including actions based on invasion of privacy and other torts, unfair competition, copyright and trademark infringement, and other theories. It is also likely that as our business grows and evolves we will become subject to laws and regulations in additional jurisdictions.

If we are not able to comply with these laws or regulations or if we become liable under these laws or regulations, we could be directly harmed, and we may be forced to implement new measures to reduce our exposure to this liability. This may require us to expend substantial resources or to modify our online services, which could harm our business, financial condition and results of operations. In addition, the increased attention focused upon liability issues as a result of lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business.

It is possible that a number of laws and regulations may be adopted or construed to apply to us in the United States and elsewhere that could restrict the online and mobile industries, including player privacy, advertising, taxation, content suitability, copyright, distribution and antitrust. Furthermore, the growth and development of electronic commerce and virtual goods may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours conducting business through the Internet and mobile devices. We anticipate that scrutiny and regulation of our industry will increase and we will be required to devote legal and other resources to addressing such regulation. If that were to occur, we may be required to seek licenses, authorizations or approvals from relevant regulators, the granting of which may be dependent on us meeting certain capital and other requirements and we may be subject to additional regulation and oversight, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the United States or elsewhere regarding these activities may lessen the growth of online gaming and impair our business.

Our ADW business faces strong competition, and we expect competition levels to increase

Our ADW business is sensitive to changes and improvements to technology and new products and faces strong competition from other web-based interactive gaming and wagering businesses. Our ability to develop, implement and react to new technology and products for our ADW business is a key factor in our ability to compete with other ADW businesses. In addition, we face competition from a new wagering product called exchange wagering, a variation of pari-mutuel wagering in which bettors wager directly against one another, establishing their own odds on a horserace. Both California and New Jersey legislatures have approved exchange wagering. Some of our competitors may have greater resources than we do. In addition, we believe that new competitors may enter the ADW business with relative ease because of the low cost of entry. As a result, we anticipate increased competition in our ADW business. It is difficult to predict the impact of increased competition on our ADW business. See subheading "J. Competition" in Item 1. "Business" of this Annual Report on Form 10-K for further discussion of ADW industry competition.

A recent clarification on the impact of the Federal Wire Act of 1961 on Internet gaming could increase competition

During 2011, the U.S. Department of Justice clarified its position on the Wire Act of 1961 (the "Wire Act"), which had historically been interpreted to outlaw all forms of gambling across states lines. The department's Office of Legal Counsel determined that the Wire Act applied only to a sporting event or contest, but did not apply to other forms of Internet gambling, including online betting unrelated to sporting events. The Justice Department indicated that many forms of online gambling could become legal under federal law, which could include legalized poker and generalized gaming including state lottery wagering. As a result, we anticipate increased competition to our ADW business from various other forms of online gaming. It is difficult to predict the level of increased competition and the impact of increased competition on our ADW business.

Our inability to retain our core customer base or our failure to attract new customers could harm our business

We utilize technology and marketing relationships to retain current customers and attract new customers. If we are unable to retain our core customer base through robust content offerings and other popular features, if we lose customers to our competitors, or if we fail to attract new customers, our businesses would fail to grow or would be adversely affected.

System failures or damage from earthquakes, fires, floods, power loss, telecommunications failures, cyber-attack or other unforeseen events could harm our business

Our ADW business depends upon our communications hardware and our computer hardware. We have built certain redundancies into our systems to avoid downtime in the event of outages, system failures or damage; however, certain risks still exist. Thus, our systems remain vulnerable to damage or interruption from floods, fires, power loss, telecommunication failures, terrorist cyber-attacks, hardware or software error, computer viruses, computer denial-of-service attacks and similar events. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems could result in lengthy interruptions in our services. Any unscheduled interruption in the availability of our website and our services results in an immediate, and possibly substantial, loss of revenue. Interruptions in our services or a breach of customers' secure data could cause current or potential users to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our site, and could permanently harm our reputation and brand. These interruptions also increase the burden on our engineering staff, which, in turn, could delay our introduction of new features and services on our website. We have property and business interruption insurance covering damage or interruption of our systems. However, this insurance might not be sufficient to compensate us for all losses that may occur.

Security breaches, computer viruses and computer hacking attacks could harm our business and results of operations

Security breaches, computer malware and computer hacking attacks have become more prevalent in our industry. Many companies, including ours, have been the target of such attacks. Any security breach caused by hacking, which involves efforts to gain unauthorized access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could harm our business, financial condition and results of operations. Though it is difficult to determine what harm may directly result from any specific interruption or breach, any failure to maintain performance, reliability, security and availability of our network infrastructure to the satisfaction of our players may harm our reputation and our ability to retain existing players and attract new players.

We carry insurance covering many of these risks, including network security, first party extortion threats and business interruptions, but there are certain exclusions to this coverage and the insurance limits may not be sufficient to fully mitigate all financial damage to the Company. We renew our insurance policies on an annual basis. The cost of coverage may become so high that we may need to further reduce our policy limits or agree to certain exclusions from our coverage.

We may not be able to respond to rapid technological changes in a timely manner, which may cause customer dissatisfaction

The gaming sector is characterized by the rapid development of new technologies and continuous introduction of new products. Our main technological advantage versus potential competitors is our software lead-time in the market and our experience in operating an Internet-based wagering network. However, we may not be able to maintain our competitive technological position against current and potential competitors, especially those with greater financial resources. Our success depends upon new product development and technological advancements, including the development of new wagering platforms and features. While we expend resources on research and development and product enhancement, we may not be able to continue to improve and market our existing products or technologies or develop and market new products in a timely manner. Further technological developments may cause our products or technologies to become obsolete or noncompetitive.

Failure to comply with laws requiring us to block access to certain individuals, based upon their geographic location, may result in legal penalties or an impairment to our ability to offer online real money gaming, in general

Individuals in jurisdictions in which online real money gaming is illegal may nonetheless seek to engage our online real money gaming products. While we take steps to block access by individuals in such jurisdictions, those steps may be unsuccessful. In the event that individuals in jurisdictions in which online real money gaming is illegal engage our online real money gaming systems, we may be subject to criminal sanctions, regulatory penalties, the loss of existing or future licenses necessary to offer online real money gaming or other legal liabilities, any one of which could have a material adverse effect on us, and therefore our businesses, financial condition and results of operations. For example, gambling laws and regulations in many jurisdictions require gaming industry participants to maintain strict compliance with various laws and regulations. If we are unsuccessful in blocking access to our online real money gaming products by individuals in a jurisdiction where such products are illegal, we could lose or be prevented from obtaining a license necessary to offer online real money gaming in a jurisdiction in which such products are legal. Furthermore, our inability to restrict illegal access could materially impact our other gaming licenses as well.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On October 19, 2011, the Company entered into a ten-year lease agreement for approximately 37,000 square feet of office space in Louisville, Kentucky. The space serves as the Company's new corporate headquarters, which was occupied during the second quarter of 2012.

Additional information concerning property owned by us required by this Item is incorporated by reference to the information contained in the subheadings "C. Live Racing," "D. Simulcast Operations" and "F. Gaming Operations" in Item 1. "Business" of this Annual Report on Form 10-K.

Our real and personal property (but not including the property of UT Canada, Bluff, Velocity, MVG, HRTV, NASRIN or Kentucky Downs) is encumbered by liens securing our $500 million senior secured credit facility. The shares of stock of and ownership interests in certain of our subsidiaries are also pledged to secure this debt facility.

The Kentucky Derby Museum is located on property that is adjacent to, but not owned by, Churchill Downs. The Museum is owned and operated by the Kentucky Derby Museum Corporation, a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986.

ITEM 3. LEGAL PROCEEDINGS

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

ILLINOIS DEPARTMENT OF REVENUE

In October of 2012, the Company filed a verified complaint for preliminary and permanent injunctive relief and for declaratory judgment (the "Complaint") against the Illinois Department of Revenue (the "Department"). The Company's complaint was filed in response to Notices of Deficiency issued by the Department on March 18, 2010 and September 6, 2012. In response to said Notices of Deficiency, the Company, on October 4, 2012, issued a payment in protest in the amount of $2.9 million (the "Protest Payment") under the State Officers and Employees Money Disposition Act and recorded this amount as an other asset. The Company subsequently filed its complaint in November alleging that the Department erroneously included handle, instead of the Company's commissions from handle, in the computation of the Company's sales factor (a computation of the Company's gross receipts from wagering within the State of Illinois) for determining the applicable tax owed. On October 30, 2012, the Company's Motion for Preliminary Injunctive Relief was granted, which prevents the Department from depositing any monies from the Protest Payment into the State of Illinois General Fund and from taking any further action against the Company until the Circuit Court takes final action on the Company's Complaint. If successful with its Complaint, the Company will be entitled to a full or partial refund of the Protest Payment from the Department. This matter remains pending before the Tax and Miscellaneous Remedies Section of the Circuit Court of Cook County.

KENTUCKY DOWNS

On September 5, 2012, Kentucky Downs Management, Inc. ("KDMI") filed a petition for declaration of rights in Kentucky Circuit *Court* located in Simpson County, Kentucky styled Kentucky Downs Management Inc. v. Churchill Downs Incorporated (Civil Action No. 12-CI-330) (the "Simpson County Case") requesting a declaration that the Company does not have the right to exercise its put right and require Kentucky Downs, LLC ("Kentucky Downs") and/or Kentucky Downs Partners, LLC ("KDP") to purchase the Company's ownership interest in Kentucky Downs. On September 18, 2012, the Company filed a complaint in Kentucky Circuit Court located in Jefferson County, Kentucky, styled Churchill Downs Incorporated v. Kentucky Downs, LLC; Kentucky Downs Partners, LLC; and Kentucky Downs Management Inc. (Civil Action No. 12-CI-04989) (the "Jefferson County Case") claiming that Kentucky Downs and KDP had breached the operating agreement for Kentucky Downs and requesting a declaration that the Company had validly exercised its put right and a judgment compelling Kentucky Downs and/or KDP to purchase the Company's ownership interest in Kentucky Downs pursuant to the terms of the applicable operating agreement. On October 9, 2012, the Company filed a motion to dismiss the Simpson County Case and Kentucky Downs, KDP and KDMI filed a motion to dismiss the Jefferson County Case. A hearing for the motion to dismiss in the Simpson County Case occurred November 30, 2012. At that hearing the Company's motion to dismiss the Simpson County Case was denied. Subsequently, Kentucky Downs, KDMI and KDP's motion to dismiss the Jefferson County Case was granted on January 23, 2013, due to the Simpson County Circuit Court's assertion of jurisdiction over the dispute. On May 16, 2013, Kentucky Downs, KDP and KDMI filed a Motion for Summary Judgment against the Company and Turfway Park, LLC. On September 19, 2013, the Company filed its response to the Motion for Summary Judgment. A hearing occurred before the Simpson County Circuit Court on September 23, 2013 on the Kentucky Downs, KDP and KDMI Motion for Summary Judgment. All parties appeared before the Simpson County Court and oral arguments were heard. On October 31, 2013, the Simpson County Court entered an Order Denying Petitioners' (Kentucky Downs Management Inc. et al.) Motion for Summary Judgment. The case will now move forward through discovery and to trial. No trial date has been set.

TEXAS PARI-MUTUEL WAGERING

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

Texas residents via TwinSpires.com and returned deposited funds to Texas residents. The Company filed a motion for an expedited hearing in the United States Court of Appeals, which was granted on October 17, 2013. The Texas Racing Commission, et. al., filed an appellate brief on December 13, 2013. The Company filed its brief in reply on December 30, 2013. Oral arguments were heard before the United States Court of Appeals for the Fifth Circuit on February 4, 2014, and the Company is awaiting a ruling from the Court.

HORSERACING EQUITY TRUST FUND

During 2006, the Illinois General Assembly enacted Public Act 94-804, which created the Horse Racing Equity Trust Fund ("HRE Trust Fund"). During November 2008, the Illinois General Assembly passed Public Act 95-1008 to extend Public Act 94-804 for a period of three years beginning December 12, 2008. The HRE Trust Fund was funded by a 3% "surcharge" on revenues of Illinois riverboat casinos that met a certain revenue threshold. The riverboats paid all monies required under Public Acts 94-804 and 95-1008 into a special protest fund account which prevented the monies from being transferred to the HRE Trust Fund. The funds were moved to the HRE Trust Fund and distributed to the racetracks, including Arlington, in December 2009.

On June 12, 2009, the riverboat casinos filed a lawsuit in the United States District Court for the Northern District of Illinois, Eastern Division, against former Governor Rod Blagojevich, Friends of Blagojevich and others, including Arlington (*Empress Casino Joliet Corp. v. Blagojevich*, 2009 CV 03585). While the riverboat casinos alleged violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO") against certain of the defendants, Arlington was not named in the RICO count, but rather was named solely in a count requesting that the monies paid by the riverboat casinos pursuant to Public Acts 94-804 and 95-1008 be held in a constructive trust for the riverboat casinos' benefit and ultimately returned to the casinos. Following several lower court motions, on March 2, 2011, a three member panel of the Seventh Circuit Court of Appeals reversed the trial court's dismissal. We requested the Seventh Circuit Court of Appeals to rehear the matter *en banc* and, on April 11, 2011, the Appellate Court issued an order to rehear the matter *en banc*. That hearing was held on May 10, 2011. On July 8, 2011, the Seventh Circuit Court of Appeals issued a thirty-day stay of dissolution of the temporary restraining order ('TRO") to allow the Casinos to request a further stay of dissolution of the TRO pending their petition for certiorari to the United States Supreme Court. On August 5, 2011, the United States Supreme Court denied an application by the casinos to further stay the dissolution of the TRO. On August 9, 2011, the stay of dissolution expired and the TRO dissolved, which terminated the restrictions on the Company's ability to access funds from the HRE Trust Fund held in the escrow account. Public Act 94-804 expired in May 2008 and Public Act 95-1008 expired on July 18, 2011, the date the tenth Illinois riverboat license became operational.

Arlington filed an administrative appeal in the Circuit Court of Cook County on August 18, 2009 (*Arlington Park Racecourse LLC v. Illinois Racing Board, 09 CH 28774*), challenging the IRB's allocation of funds out of the HRE Trust Fund based upon handle generated by certain ineligible licensees, as contrary to the language of the statute. The Circuit Court affirmed the IRB's decision on November 10, 2010, and Arlington appealed this ruling to the Illinois First District Court of Appeals. On April 23, 2012 the Court of Appeals ultimately affirmed the IRB's decision and Arlington filed a petition for leave to appeal to the Illinois Supreme Court on May 25, 2012. On October 1, 2012, the Illinois Supreme Court denied Arlington's petition for leave to appeal. Hawthorne Racecourse filed a separate administrative appeal on June 11, 2010 (Hawthorne Racecourse, Inc. v. Illinois Racing Board et. al., Case No. 10 CH 24439) challenging the IRB's decision not to credit Hawthorne with handle previously generated by an ineligible licensee for the purpose of calculating the allocation of the HRE Trust Fund monies and the IRB's unwillingness to hold another meeting in 2010 to reconstrue the statutory language in Public Act 95-1008 with respect to distributions. On May 25, 2011, the Circuit Court rejected Hawthorne's arguments and affirmed the IRB's decisions, and Hawthorne appealed the Circuit Court's decision. Arlington filed its response brief on May 30, 2012, and the IRB filed its response brief on June 30, 2012. Hawthorne filed its reply brief on July 27, 2012. Oral arguments on Hawthorne's appeal before the Illinois First District Court of Appeals were heard on November 1, 2012 and during November 2012, the First District Court of Appeals ruled against Hawthorne.

We received $46.1 million from the HRE Trust Fund, of which $26.5 million was designated for Arlington purses. We used the remaining $19.6 million of the proceeds to improve, market, and maintain or otherwise operate the Arlington racing facility in order to conduct live racing.

BALMORAL, MAYWOOD AND ILLINOIS HARNESS HORSEMEN'S ASSOCIATION

On February 14, 2011, Balmoral Racing Club, Inc., Maywood Park Trotting Association, Inc. and the Illinois Harness Horsemen's Association, Inc. filed a lawsuit styled *Balmoral Racing Club, Inc., Maywood Park Trotting Association, Inc. and the Illinois Harness Horsemen's Association Inc. vs. Churchill Downs Incorporated, Churchill Downs Technology Initiatives Company d/b/a TwinSpires.com and Youbet.com, LLC* (Case No. 11-CV-D1028) in the United States District Court for the Northern District of Illinois, Eastern Division. The plaintiffs allege that Youbet.com breached a co-branding agreement dated December 2007, as amended on December 21, 2007, and September 26, 2008 (the "Agreement"), which was entered into between certain Illinois racetracks and a predecessor of Youbet.com. The plaintiffs allege that the defendants breached the agreement by virtue of an unauthorized assignment of the Agreement to TwinSpires.com and further allege that Youbet.com and TwinSpires have misappropriated trade secrets in violation of the Illinois Trade Secrets Act. Finally, the plaintiffs allege that the Company and TwinSpires.com tortiously interfered with the Agreement by causing Youbet.com to breach the Agreement. The plaintiffs have alleged damages of at least $3.6 million, or alternatively, of at least $0.8 million. On April 1, 2011, the plaintiffs filed a motion for a preliminary injunction, seeking an order compelling the defendants to turn over all Illinois customer accounts and prohibiting TwinSpires.com from using that list of Illinois customer accounts. On April 18, 2011, the defendants filed an answer and a motion to dismiss certain counts of the plaintiffs' complaint, and Youbet.com asserted a counterclaim seeking certain declaratory relief relating to allegations that plaintiffs Maywood and Balmoral breached the Agreement in 2010, leading to its proper termination by Youbet.com on December 1, 2010. The preliminary injunction hearing took place on July 6, 2011, and, on July 21, 2011, the court denied the preliminary injunction. On March 9, 2012, the parties mediated the case without resolution. The parties filed motions for summary judgment in November and December 2012, respectively, and replies were filed in January 2013. During June 2013, the Court denied both parties' motions for summary judgment. On November 1, 2013, the Company reached a final settlement in the matter and paid the plaintiffs $2.3 million, of which $2.0 million was reimbursed to the Company by its insurance carrier.

OTHER MATTERS

There are no other material pending legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Shareholders, Market Information and Dividends

Our common stock is traded on the NASDAQ Global Market under the symbol CHDN. As of February 21, 2014, there were approximately 3,449 shareholders of record.

The following table sets forth the high and low sale prices, as reported by the NASDAQ Global Market, and dividend declaration information for our common stock during the last two years:

	2013 - By Quarter				2012 - By Quarter			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High Sale	$ 70.73	$ 86.38	$ 89.81	$ 90.77	$ 60.00	$ 63.18	$ 63.49	$ 67.20
Low Sale	$ 63.61	$ 68.26	$ 78.95	$ 82.42	$ 49.82	$ 54.93	$ 54.17	$ 56.66
Dividends per share:				$ 0.87				$ 0.72

Purchases of Company Common Stock

The following table provides information with respect to shares of common stock repurchased by the Company during the quarter ended December 31, 2013:

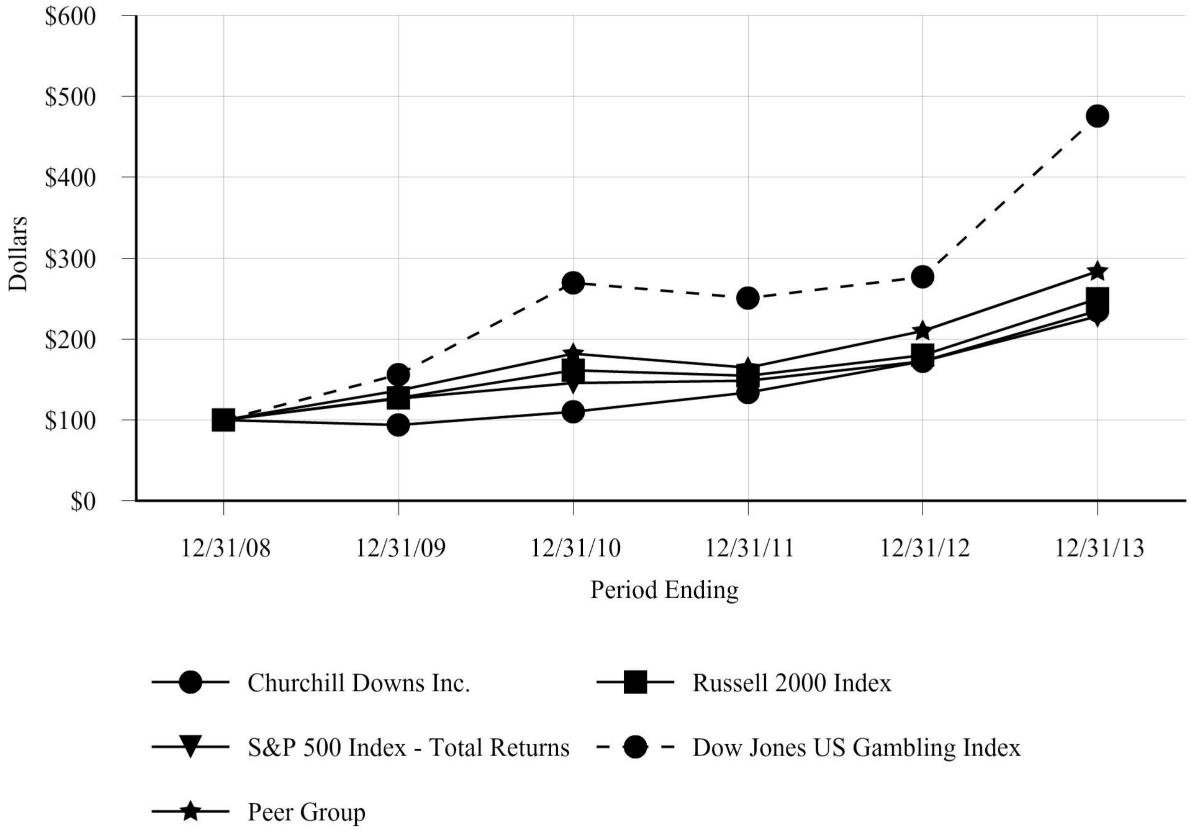
		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased under the Plans or Programs
Period 1	10/1/-10/31/2013	1,253 (1)	$ 88.02	—	$ 100,000,000 (2)
Period 2	11/1/-11/30/2013	—	$ —	—	—
Period 3	12/1/-12/31/2013	27,090 (1)	$ 89.65	—	—
		28,343	$ 89.58	—	$ 100,000,000

(1) Shares of common stock were repurchased from grants of restricted stock in payment of income taxes on the related compensation.

(2) Maximum dollar amount of shares of common stock that may yet be repurchased under the Company's stock repurchase program.

Shareholder Return Performance Graph

Set forth below is a line graph comparing the cumulative total return of our common stock, including reinvested dividends, against the cumulative total return of peer group indices, the S&P 500 Index and the Russell 2000 Index for the period of five fiscal years commencing December 31, 2008, and ending December 31, 2013. The peer group indices used by the Company include the Dow Jones US Gambling Index, which is a published industry peer index of companies engaged in the leisure and gaming industries, and an index of certain companies in our peer group ("Peer Group"), which is comprised of Penn National Gaming Inc., Boyd Gaming Corporation, Pinnacle Entertainment Inc., Isle of Capri Casinos Inc. and MTR Gaming Group Inc. The broad equity market indices used by the Company are the Russell 2000 Index, which measures the performance of small and middle capitalization companies and the S&P 500 Index, which measures the performance of large capitalization companies. The graph and table depict the result of an investment on December 31, 2008, of $100 in the Company, the Russell 2000 Index, the S&P 500 Index, the Dow Jones US Gambling Index and our Peer Group. Because we have historically paid dividends on an annual basis, the performance graph assumes that dividends were reinvested annually.



	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Churchill Downs Inc.	$ 100.00	$ 93.63	$ 110.02	$ 133.73	$ 172.47	$ 235.01
Russell 2000 Index	$ 100.00	$ 127.09	$ 161.17	$ 154.44	$ 179.75	$ 249.53
S&P 500 Index - Total Returns	$ 100.00	$ 126.46	$ 145.51	$ 148.59	$ 172.37	$ 228.19
Dow Jones US Gambling Index	$ 100.00	$ 155.72	$ 269.58	$ 250.58	$ 276.93	$ 475.61
Peer Group	$ 100.00	$ 136.17	$ 181.68	$ 164.40	$ 210.02	$ 283.64

ITEM 6. SELECTED FINANCIAL DATA

(In thousands, except per common share data)	Years Ended December 31, 2013[1] [7]	2012[2] [8]	2011[3]	2010[4] [9]	2009[5]
Operations:					
Net revenues	$ 779,325	$ 731,296	$ 696,854	$ 585,345	$ 470,503
Operating income	$ 90,100	$ 96,550	$ 81,010	$ 31,566	$ 34,733
Earnings from continuing operations	$ 55,033	$ 58,152	$ 60,795	$ 19,557	$ 17,681
Discontinued operations, net of income taxes:					
(Loss) gain from operations	$ (50)	$ 124	$ (1)	$ (5,827)	$ (853)
(Loss) gain on sale of assets	$ (83)	$ —	$ 3,561	$ 2,623	$ —
Net earnings	$ 54,900	$ 58,276	$ 64,355	$ 16,353	$ 16,828
Basic net earnings from continuing operations per common share	$ 3.13	$ 3.38	$ 3.59	$ 1.27	$ 1.28
Basic net earnings per common share	$ 3.12	$ 3.39	$ 3.80	$ 1.06	$ 1.22
Diluted net earnings from continuing operations per common share	$ 3.07	$ 3.33	$ 3.55	$ 1.26	$ 1.27
Diluted net earnings per common share	$ 3.06	$ 3.34	$ 3.76	$ 1.05	$ 1.21
Dividends paid per common share	$ 0.87	$ 0.72	$ 0.60	$ 0.50	$ 0.50
Balance sheet data at period end:					
Total assets	$1,352,261	$1,114,337	$ 948,022	$1,017,719	$ 725,402
Working capital deficiency	$ (52,491)	$ (259,506)	$ (28,989)	$ (18,556)	$ (80,361)
Current maturities of long-term debt	$ —	$ 209,728	$ —	$ —	$ —
Long-term debt	$ 369,191	$ —	$ 127,563	$ 265,117	$ 71,132
Convertible note payable, related party	$ —	$ —	$ —	$ 15,075	$ 14,655
Other Data:					
Shareholders' equity	$ 704,789	$ 644,295	$ 584,030	$ 506,214	$ 407,022
Shareholders' equity per common share	$ 39.27	$ 36.93	$ 34.00	$ 30.55	$ 29.74
Additions to property and equipment, exclusive of business acquisitions, net	$ 48,771	$ 41,298	$ 22,667	$ 61,952	$ 81,940
Cash flow data at period end:					
Net cash provided by operating activities	$ 144,915	$ 144,407	$ 172,995	$ 59,857	$ 71,047
Maintenance-related capital expenditures	$ 16,879	$ 17,158	$ 14,845	$ 14,709	$ 12,276
Free cash flow[6]	$ 128,036	$ 127,249	$ 158,150	$ 45,148	$ 58,771

The selected financial data presented above is subject to the following information:

(1) During 2013, we recognized $4.5 million as miscellaneous other income for our final share of proceeds from the Horse Racing Equity Trust Fund ("HRE Trust Fund"). Furthermore, we recognized a gain of $0.4 million from insurance recoveries, net of losses, related to losses sustained at Churchill Downs during 2012 from hail damage. Partially offsetting these items, we recognized an expense of $2.5 million as the collectibility of a third-party deposit associated with an Internet gaming license was not deemed probable.

(2) During 2012, we recognized a gain of $7.0 million from insurance recoveries, net of losses, related to losses sustained at Harlow's during 2011 from wind and flood damage and at Churchill Downs during 2012 from hail damage.

(3) During 2011, we recognized $19.3 million as miscellaneous other income for our share of proceeds from the HRE Trust Fund. In addition, during 2011, we recognized $2.7 million of miscellaneous other income and $1.4 million of interest expense as a result of the conversion and the elimination of a short forward contract liability and long put option asset through the issuance of 452,603 shares of common stock associated with a convertible note payable. Finally, during 2011, we recognized a gain in discontinued operations of $3.4 million, net of income taxes, as the final settlement of the contingent consideration provision associated with the sale of our ownership interest in Hoosier Park L.P. during 2007. In addition, we recognized an additional gain in discontinued operations of $0.2 million, net of income taxes, on the sale of Hollywood Park related to the final expiration of an indemnity of certain contractual obligations related to the sale.

(4) During 2010, Churchill Downs Entertainment Group ("CDE") ceased operations and recognized a loss from operations before income tax benefit of $9.1 million ($5.8 million, net of income taxes) in discontinued operations. In addition, during 2010, we recognized a gain of $2.6 million, net of income taxes, on the sale of Hollywood Park, upon the partial expiration of an indemnity of certain contractual obligations related to the sale.

(5) During 2009, we recognized incremental income tax expense from continuing operations of $2.3 million as well as income tax expense from discontinued operations of $1.1 million related to proposed adjustments resulting from an audit of prior year income tax returns by the Internal Revenue Service ("IRS"). In addition, during 2009, we acquired land from a related party for $27.5 million, which was financed partially with a short-term note payable of $24.0 million. Finally, during 2009, we received $24.0 million related to Illinois riverboat subsidies, which was recorded in restricted cash and deferred revenues pending the outcome of a challenge of these subsidies by Illinois riverboats.

(6) Free cash flow, a non-GAAP financial measure, is defined as net cash provided by operating activities less maintenance-related (replacement) capital expenditures. Please refer to the subheading "Liquidity and Capital Resources" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K for a further description of free cash flow and a reconciliation to the most closely related GAAP measure.

(7) On July 17, 2013, we completed the acquisition of Oxford, whose results are presented in 2013 from the date of acquisition through December 31, 2013.

(8) On October 23, 2012, we completed the acquisition of Riverwalk, whose results are presented in 2012 from the date of acquisition through December 31, 2012.

(9) On December 16, 2010, we completed the acquisition of Harlow's, whose results are presented in 2010 from the date of acquisition through December 31, 2010.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information set forth in this discussion and analysis contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Annual Report on Form 10-K are made pursuant to the Reform Act. The reader is cautioned that such forward-looking statements are based on information available at the time and/or management's good faith belief with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. Forward-looking statements are typically identified by the use of terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "predict," "project," "should," "will," and similar words, although some forward-looking statements are expressed differently. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from expectations include those factors described in Item 1A. "Risk Factors" of this Annual Report on Form 10-K.

You should read this discussion with the financial statements and other financial information included in this report. Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Overview

We are a diversified provider of pari-mutuel horseracing, casino gaming, entertainment, and the country's premier source of online account wagering on horseracing events.

We operate in four operating segments as follows:

1. Racing Operations, which includes:
    - Churchill Downs Racetrack ("Churchill Downs") in Louisville, Kentucky, an internationally known thoroughbred racing operation and home of the Kentucky Derby since 1875;
    - Arlington International Race Course ("Arlington"), a thoroughbred racing operation in Arlington Heights along with eleven off-track betting facilities ("OTBs") in Illinois;
    - Calder Race Course ("Calder"), a thoroughbred racing operation in Miami Gardens, Florida; and
    - Fair Grounds Race Course ("Fair Grounds"), a thoroughbred racing operation in New Orleans along with twelve OTBs in Louisiana.
2. Gaming, which includes:
    - Oxford Casino ("Oxford") in Oxford, Maine, which we acquired on July 17, 2013. Oxford operates approximately 850 slot machines, 26 table games and various dining facilities;
    - Riverwalk Casino Hotel ("Riverwalk") in Vicksburg, Mississippi, which we acquired on October 23, 2012. Riverwalk operates approximately 710 slot machines, 22 table games, a five story, 80-room attached hotel, multi-functional event center and dining facilities;
    - Harlow's Casino Resort & Spa ("Harlow's") in Greenville, Mississippi, which operates approximately 750 slot machines, 13 table games, a five-story, 105-room attached hotel, multi-functional event center, pool, spa and dining facilities;
    - Calder Casino, a slot facility in Florida adjacent to Calder, which operates approximately 1,140 slot machines and includes a poker room operation branded "Studz Poker Club";
    - Fair Grounds Slots, a slot facility in Louisiana adjacent to Fair Grounds, which operates approximately 620 slot machines; and
    - Video Services, LLC ("VSI"), the owner and operator of approximately 780 video poker machines in Louisiana.
3. Online Business, which includes:

- TwinSpires, an Advance Deposit Wagering ("ADW") business that is licensed as a multi-jurisdictional simulcasting and interactive wagering hub in the state of Oregon;
- Fair Grounds Account Wagering ("FAW"), an ADW business that is licensed in the state of Louisiana;
- Velocity, a business that is licensed in the British Dependency Isle of Man focusing on high wagering-volume international customers;
- Luckity, an ADW business launched during October 2012 that offers real-money bingo with outcomes based on and determined by pari-mutuel wagers on live horseraces;
- Bloodstock Research Information Services ("BRIS"), a data service provider for the equine industry; and
- Our equity investment in HRTV, LLC ("HRTV"), a horseracing television channel.

4. Other Investments, which includes:
   - United Tote Company and United Tote Canada (collectively "United Tote"), which manufactures and operates pari-mutuel wagering systems for racetracks, OTBs and other pari-mutuel wagering businesses;
   - Bluff Media ("Bluff"), a multimedia poker content brand and publishing company, acquired by the Company on February 10, 2012;
   - Our equity investment in Miami Valley Gaming & Racing, LLC ("MVG"), a 50% joint venture harness racetrack and video lottery terminal facility in Lebanon, Ohio, which opened December 12, 2013. MVG has 1,600 video lottery terminals, a racing simulcast center and a harness racetrack; and
   - Our other minor investments.

In order to evaluate the performance of these operating segments internally, we use Adjusted EBITDA (defined as earnings before interest, taxes, depreciation, amortization, insurance recoveries net of losses, Horse Racing Equity Trust Fund ("HRE Trust Fund") proceeds, share-based compensation expenses, pre-opening expenses, the impairment of assets and other charges or recoveries). Adjusted EBITDA also includes 50% of the operating income or loss of our joint venture, MVG. We believe that the use of Adjusted EBITDA as a key performance measure of the results of operations enables management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner.

During the year ended December 31, 2013, total handle for the pari-mutuel industry, according to figures published by Equibase, increased 0.1 % compared to the same period of 2012. TwinSpires handle increased $8.9 million, or 1%, during the year ended December 31, 2013, as compared to the same period of 2012. Excluding the impact from Illinois and Texas, handle increased 6% primarily due to an 18% increase in new players.

During 2012, legislation providing for an extension of ADW operations in Illinois subsequent to the December 31, 2012, sunset date failed to pass the legislature prior to adjournment of the 2012 legislative session. TwinSpires ceased accepting wagers from Illinois residents on January 18, 2013, based upon the request of the Illinois Racing Board ("IRB"). On June 7, 2013, TwinSpires resumed accepting wagers from Illinois residents. During 2013, handle wagered by Illinois residents decreased $25.0 million or 2.9% of total Online Business handle, as compared to the same period of 2012. As further discussed in Part I Item 3. Legal Proceedings, on September 25, 2013, we suspended wagering from all Texas accounts and returned deposited funds to Texas residents. This resulted in a decrease of $11.7 million, or 1.4%, of total Online Business handle, as compared to the same period of 2012.

Pari-mutuel handle from our Racing Operations decreased $220.0 million, or 11%, during the year ended December 31, 2013, compared to the same period of 2012, primarily due to the loss of Florida hosting revenues, the IRB appointing eighteen fewer host days to Arlington and unfavorable weather conditions at Fair Grounds that resulted in fifty-four fewer turf races carded as compared to the same period of 2012.

We believe that, despite uncertain economic conditions as well as regulatory and legislative challenges, we are in a strong financial position. As of December 31, 2013, there was $425 million of borrowing capacity available under our senior secured credit facility. To date, we have not experienced any limitations in our ability to access this source of liquidity.

Recent Developments

Senior Unsecured Note Offering

On December 16, 2013, the Company completed the private placement of $300 million 5.375% senior unsecured notes ("Senior Unsecured Notes"). The Senior Unsecured Notes are senior unsecured obligations which are guaranteed by each of our domestic subsidiaries that guarantee our senior secured credit facility. We used the net proceeds from the offering to repay a portion of our outstanding borrowings under our senior secured credit facility, including fees incurred with the Senior Unsecured Notes offering.

Miami Valley Gaming & Racing Joint Venture

On December 12, 2013, MVG, our 50% joint venture with Delaware North Companies Gaming & Entertainment Inc. ("DNC"), opened a new gaming facility located in Lebanon, Ohio. MVG features 1,600 video lottery terminals, a racing simulcast center, and a 5/8-mile harness racetrack which can accommodate more than 1,000 harness-racing fans in an indoor grandstand. Our investment in the joint venture was financed with borrowings under our senior secured credit facility.

Oxford Casino Acquisition

On July 17, 2013, we completed our acquisition of Oxford Casino ("Oxford") in Oxford, Maine for cash consideration of approximately $168.6 million. The transaction included the acquisition of a 25,000-square-foot casino with approximately 800 slot machines, 22 table games and various dining facilities on approximately 130 acres of land. The acquisition continued our diversification and growth strategies to invest in assets with rates of returns attractive to our shareholders. We financed the acquisition with borrowings under our senior secured credit facility. During December 2013, we expanded the Oxford facility to include an additional 46 slot machines and four table games. An additional twelve slot machines will be added to the facilities during 2014.

Horse Racing Equity Trust Fund

Beginning in 2009, we received payments from the HRE Trust Fund related to subsidies paid by the original nine Illinois riverboat casinos in accordance with Illinois Public Acts 94-804 and 95-1008. The HRE Trust Fund was established to fund operating and capital improvements at Illinois racetracks via a 3% "surcharge" on revenues of Illinois riverboat casinos that meet a predetermined revenue threshold. The funds were to be distributed with approximately 58% of the total to be used for horsemen's purses and the remaining monies to be distributed to Illinois racetracks. The monies received from the Public Acts were placed into an Arlington Park escrow account due to a temporary restraining order ("TRO") pending the resolution of a lawsuit brought by certain Illinois casinos that were required to pay funds to the HRE Trust Fund. In August 2011, the stay of dissolution expired and the TRO was dissolved, which terminated the restrictions on our ability to access the funds from the HRE Trust Fund held in the escrow account. As of December 31, 2012, we had received $45.4 million in proceeds, of which $26.1 million was designated for Arlington purses. We used the remaining $19.3 million of the proceeds to improve, market, and maintain or otherwise operate the Arlington racing facility in order to conduct live racing.

On June 3, 2013, Arlington received the final disbursement related to the original nine riverboat licensees under the HRE Trust Fund. Arlington received $0.7 million in proceeds, of which $0.4 million was designated for Arlington purses and the remaining $0.3 million was recognized as miscellaneous other income in our Consolidated Statements of Comprehensive Income during the year ended December 31, 2013.

Horse Racing Equity Trust Fund—Tenth Riverboat License

Under legislation enacted in 1999, the HRE Trust Fund was scheduled to receive amounts equal to 15% of the adjusted gross receipts generated by a tenth riverboat casino license to be granted in Illinois. The funds were to be distributed to racetracks in Illinois for purses as well as racetrack discretionary spending. During December 2008, the Illinois Gaming Board awarded the tenth riverboat license to a casino in Des Plaines, Illinois. This casino opened during July 2011, entitling the Illinois racing industry to receive an amount equal to 15% of the adjusted gross receipts of this casino from the gaming taxes generated by that casino, once the accumulated funds were appropriated by the state.

On July 10, 2013, the Governor of Illinois signed Illinois House Bill 214 into law, providing for the release of $23.0 million of funds collected from the tenth riverboat licensee since its opening during 2011. During the year ended December 31, 2013, Arlington received $7.9 million as its share of the proceeds, of which $3.6 million was designated for Arlington purses. The remaining $4.2 million was recognized as miscellaneous other income in our Consolidated Statements of Comprehensive Income during the year ended December 31, 2013. No additional proceeds related to future funds of the tenth riverboat are expected to be distributed to Illinois racetracks under the provisions of House Bill 214.

Florida Race Dates and Host Tracks

On February 28, 2013, Calder and Gulfstream Park submitted amended applications to the Florida Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering (the "Division") for the twelve month racing season beginning July 1, 2013. The Division approved Calder's live race meet to run three days a week (Friday through Sunday) from July 1, 2013, to June 30, 2014, and Gulfstream Park's live race meet to run from July 1, 2013 to June 30, 2014. Pursuant to the licenses granted, Calder and Gulfstream Park will simultaneously conduct live thoroughbred racing, in certain months, during 2013 and 2014. During 2013, this overlapping of live racing has resulted in direct competition for on-track horseracing, in the intrastate and interstate simulcast markets and for horses in South Florida, which negatively affected Calder's ability to achieve full field horse races and to generate handle on live racing. On July 6, 2013, Calder and Gulfstream Park conducted their first simultaneous live racing performances, and both racetracks are scheduled to continue to overlap live racing on certain dates through June 2014.

Previously in Florida, a thoroughbred racetrack conducting a live racing meet had control over hosting out-of-state signals, and received commissions on wagers placed at other racetracks throughout the state. There were instances where one or more thoroughbred racetracks operated live meets concurrently, and in that instance each racetrack had the opportunity to be a "host" track for out-of-state interstate horseracing signals. When two or more thoroughbred racetracks operate live meets concurrently, other wagering sites must choose a live racetrack to host their pari-mutuel wagering. Three Florida thoroughbred racetracks, including Calder, have historically served as the host track based on their live racing calendar. On May 7, 2013, all of Florida's three thoroughbred racetracks began claiming that they were host tracks on a year round basis.

On May 24, 2013, Calder filed a petition with the Florida Division of Administrative Hearings (the "DOAH") challenging the other racetracks' interpretation that they may conduct interstate simulcasting, and whether it is a valid interpretation of state law and the IHA. Calder believes that Florida statutes require at least three days of live racing per week to be considered a host track. Three days prior to the hearing, the Division moved to abate the case and go to rulemaking, which was granted. On June 28, 2013, a rule workshop was held, comments were submitted, and the Division had until July 26, 2013, to notify the Administrative Law Judge at the DOAH of the progress of the rulemaking of the Division. On July 23, 2013, the Division proposed a modification to state law which would permit multiple hosts, if the racetracks conducted at least two days of live racing per week.

On October 14, 2013, the Florida Legislature Joint Administrative Procedures Committee (the "Committee") issued a letter to the Division challenging the Division's authority to interpret Florida statutes and to permit thoroughbred racetracks to operate fewer than three live racing days per week to be considered host tracks. A public hearing on November 7, 2013 was held by the Division to address the Division's proposed rules and after taking comments from thoroughbred permit holders and other interested parties, the Division issued a Notice of Change on November 27, 2013 that thoroughbred permit holders must conduct three days of live racing per week in order to qualify as a host track. The Division has scheduled a rule hearing on March 6, 2014 to promulgate a rule which will further define thoroughbred hosting eligibility in Florida. Until Florida legal and regulatory matters related to this issue are resolved, we do not fully know the long-term implications of overlapping race dates on our business, financial condition and results of operations.

For the year ended December 31, 2013, Calder revenues declined approximately $28.6 million due to the impact of multiple host tracks and fewer live race days. For the year ended December 31, 2013, Calder Adjusted EBITDA declined $9.0 million, of which approximately $6.3 million was associated with the loss of hosting revenues, net of purses, $1.8 million was associated with fewer live race days and $0.9 million with other ancillary items.

Amendment of Senior Secured Credit Facility

On May 17, 2013, we entered into an amendment to our Senior Secured Credit Facility which amended certain provisions of the credit agreement including increasing the maximum aggregate commitment from $375 million to $500 million. The Senior Secured Credit Facility also provides for an accordion feature which, if exercised, could increase the maximum aggregate commitment by up to an additional $225 million and reduce the pricing schedule for outstanding borrowings and commitment fees across all leverage pricing levels. The guarantors under the Senior Secured Credit Facility continue to be a majority of the Company's wholly-owned subsidiaries. We incurred loan origination costs of $2.3 million in connection with this amendment, which were capitalized and are being amortized as interest expense over the remaining term of the Senior Secured Credit Facility. The Senior Secured Credit Facility matures on May 17, 2018.

Generally, borrowings made pursuant to the Senior Secured Credit Facility bear interest at a LIBOR-based rate per annum plus an applicable percentage ranging from 1.125% to 3.0% depending on our total leverage ratio. In addition, under the Senior Secured Credit Facility, we agreed to pay a commitment fee at rates that range from 0.175% to 0.45% of the available aggregate commitment, depending on our leverage ratio.

The Senior Secured Credit Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations on the Company and its subsidiaries with respect to indebtedness, restricted payments, liens, investments, mergers and acquisitions, disposition of assets, sale-leaseback transactions and transactions with affiliates. The covenants permit us to use proceeds of the credit extended under the agreement for general corporate purposes, restricted payments and acquisition needs. The Senior Secured Credit Facility also contains financial covenants that require us (i) to maintain an interest coverage ratio (i.e., consolidated adjusted EBITDA to consolidated interest expense) that is greater than 3.0 to 1.0; (ii) not to permit the total leverage ratio (i.e., total consolidated funded indebtedness to consolidated adjusted EBITDA) to be greater than 4.5 to 1.0, provided that if a certain minimum consolidated adjusted EBITDA is reached then the total leverage ratio will be increased to 5.0 to 1.0 for such periods that the minimum is maintained; and (iii) not to permit the senior secured leverage ratio (i.e. senior secured consolidated funded indebtedness to consolidated adjusted EBITDA) to be greater than 3.5 to 1.0. As of December 31, 2013, we were in compliance with all covenants under the Senior Secured Credit Facility, and substantially all of our assets continue to be pledged as collateral under the facility.

Stock Repurchase Program

On April 23, 2013, the Company's Board of Directors authorized the repurchase of up to $100 million of our stock in a stock repurchase program. We may repurchase stock in open market purchases or through privately negotiated transactions in compliance with Securities and Exchange Commission Rule 10b-18, subject to market conditions, applicable legal requirements and other relevant factors. We expect to fund repurchases using available cash and borrowings under our Senior Secured Credit Facility. We are not obligated to purchase any stock under the stock repurchase program, and purchases may be discontinued, or the stock repurchase program may be modified or suspended at any time prior to the termination of the repurchase program on December 31, 2015. During the year ended December 31, 2013, the Company did not repurchase any shares of stock under this program.

Long-Term Incentive Plan

During February 2013, the Board of Directors approved the terms and conditions of performance share awards issued pursuant to the Churchill Downs Incorporated 2007 Omnibus stock incentive plan (the "New Company LTIP"). As a way to continue to encourage innovation, an entrepreneurial approach, and careful risk assessment, and in order to retain key executives, the New Company LTIP offers long-term incentive compensation to our named executive officers and other key executives ("Grantees") as reported in our Schedule 14A Proxy Statement filing, with the exception of our Chairman of the Board and Chief Executive Officer.

Illinois Income Taxes

During October 2012, we funded a $2.9 million income tax payment to the State of Illinois related to a dispute over state income tax apportionment methodology which was recorded as an other asset since we believe this amount will be recoverable in a future period. We filed our state income tax returns related to the years 2002 through 2005 following the methodology prescribed by Illinois statute, however the State of Illinois has taken a contrary tax position. We filed a formal protest with the State of Illinois during the fourth quarter of 2012, and on October 11, 2013, depositions were taken from the plaintiffs. We do not expect this issue to have a material, adverse effect on our business, financial condition and results of operations.

Kentucky Hailstorm

On April 28, 2012, a hailstorm caused damage to portions of Louisville, Kentucky including Churchill Downs Racetrack and its separate training facility known as Trackside Louisville. Both locations sustained damage to their stable areas as well as damages to administrative offices and several other structures. We carry property and casualty insurance, subject to a $0.5 million deductible. During the year ended December 31, 2012, we recorded a reduction of property and equipment of $0.6 million and received $1.1 million from our insurance carriers in partial settlement of our claim. We are currently working with our insurance carriers to finalize our claim and received an additional $0.4 million during the year ended December 31, 2013, which we recognized as a component of operating income during the year ended December 31, 2013.

Legislative and Regulatory Changes

Please refer to subheading "K. Legislative Changes" in Item 1. "Business" of this Annual Report on Form 10-K for information regarding legislative and regulatory changes.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States. Accordingly, we are required to make estimates, judgments and assumptions that we believe are reasonable based on our historical experience, contract terms, observance of known trends in our Company and the industry as a whole and information available from other outside sources. Our estimates affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those initial estimates.

Our most significant estimates relate to the valuation of property and equipment, goodwill and other intangible assets, which may be significantly affected by changes in the regulatory environment in which we operate, and to the aggregate costs for self-insured liability and workers' compensation claims. Additionally, estimates are used for determining income tax liabilities.

We review the carrying values of goodwill at least annually during the first quarter of each year or whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. In 2012, in connection with our annual impairment test, we adopted ASU No. 2011-08, *Intangibles-Goodwill and Other: Testing Goodwill for Impairment* which allows an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that the fair value of a reporting unit is less than the carrying amount, then the Company would perform a two step goodwill impairment test. The first step, used to identify potential impairment, is a comparison of the reporting unit's estimated fair value to its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of the impairment, if any. The second step requires the Company to calculate an implied fair value of goodwill at the reporting unit level. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess.

Our 2013 annual goodwill impairment analysis included an assessment of certain qualitative factors including but not limited to macroeconomic, industry and market conditions; cost factors that have a negative effect on earnings; overall financial performance; the movement of the Company's share price; and other relevant entity and reporting unit specific events. We considered the qualitative factors and weighted the evidence obtained and determined that it is not more likely than not that the fair value of any reporting unit is less than its carrying amount. None of our reporting units were considered to be "at risk" of failing step one of the 2013 annual goodwill impairment test. Although we believe the factors considered in the impairment analysis are reasonable, significant changes in any one of our assumptions could produce a significantly different result. In prior years, our assessment of goodwill impairment was largely dependent on estimates of future cash flows at the aggregated reporting unit level, and a weighted-average cost of capital. The estimates of these future cash flows were based on assumptions and projections with respect to future revenues and expenses believed to be reasonable and supportable at the time the annual impairment analysis was performed. Further they required management's judgments and took into account assumptions about overall growth rates and increases in expenses.

We consider our slots gaming rights and trademark intangible assets as indefinite-lived intangible assets that do not require amortization based on our future expectations to operate our gaming facilities indefinitely, as well as our historical experience in renewing these intangible assets at minimal cost with various state gaming commissions. Rather, these intangible assets are tested annually, or more frequently, if indicators of impairment exist, for impairment by comparing the fair value of the recorded assets to their carrying amount. If the carrying amount of the slots gaming rights and trademark intangible assets exceed their fair value, an impairment loss is recognized.

In March 2013, we adopted ASU No. 2012-02, Intangibles-Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 simplifies indefinite-lived intangible asset impairment testing by adding a qualitative review step to assess whether a quantitative impairment analysis is necessary. Under the amended rule, a testing methodology similar to that which is performed for goodwill impairment testing is acceptable for assessing a company's indefinite-lived intangible assets. We completed the required annual impairment tests of indefinite-lived intangible assets as of March 31, 2013, and no adjustment to the carrying value of indefinite-lived intangible assets was required. We assessed our indefinite-lived intangible assets by qualitatively evaluating events and circumstances that have both positive and negative factors, including macroeconomic conditions, industry events, financial performance and other changes and concluded that it was more likely than not that the fair value of our indefinite-lived intangible assets was greater than their carrying value.

We assign estimated useful lives to our definite-lived intangible assets based on the period of time the asset is expected to contribute directly or indirectly to future cash flows. We consider certain factors when assigning useful lives such as legal, regulatory, competition and other economic factors. Intangible assets with definite lives are amortized using the straight-line method.

While we believe that our estimates of future revenues and cash flows are reasonable, different assumptions could materially affect our assessment of useful lives and fair values. Changes in assumptions may cause modifications to our estimates for amortization or impairment, thereby impacting our results of operations. If the estimated lives of our definite-lived intangible assets were to decrease based on the factors mentioned above, amortization expense could increase significantly.

Our business can be impacted positively and negatively by legislative and regulatory changes, by economic conditions and by gaming competition. A significant negative impact from these activities could result in a significant impairment of our property and equipment and/or our goodwill and indefinite-lived intangible assets. We perform reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset, or asset group, may not be recoverable. If the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition are insufficient to recover the carrying value of the assets, than an impairment loss is recognized based upon the excess of the carrying value of the assets over the fair value of the assets. An impairment review incorporates estimates of forecasted revenue and costs that may be associated with an asset as well as the expected periods that the asset, or asset group, may be utilized. Fair value is determined based on the highest and best use of the assets considered from the perspective of market participants, which may be different than our actual intended use of the asset, or asset group.

Additional information regarding how our business can be impacted by competition and legislative changes is included in subheading "J. Competition" and subheading "K. Legislative Changes", respectively, in Item 1. "Business" of this Annual Report on Form 10-K.

In connection with losses incurred from natural disasters, insurance proceeds are collected on existing business interruption and property and casualty insurance policies. When losses are sustained in one period and the amounts to be recovered are collected in a subsequent period, management uses estimates and judgment to determine the amounts that are probable of recovery under such policies. Estimated losses, net of anticipated insurance recoveries, are recognized in the period the natural disaster occurs and the amount of the loss is determinable. Insurance recoveries in excess of estimated losses are recognized when realizable.

We also use estimates and judgments for financial reporting to determine our current tax liability, as well as those taxes deferred until future periods. Net deferred and accrued income taxes represent significant assets and liabilities of the Company. In accordance with the liability method of accounting for income taxes, we recognize the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns.

Adjustments to deferred taxes are determined based upon changes in differences between the book basis and tax basis of our assets and liabilities, measured by enacted tax rates we estimate will be applicable when these differences are expected to reverse. Changes in current tax laws, enacted tax rates or the estimated level of taxable income or non-deductible expenses could change the valuation of deferred tax assets and liabilities and affect the overall effective tax rate and tax provision.

During the year ended December 31, 2013, our business insurance renewals included substantially the same coverage and retentions as in previous years. We estimate insurance liabilities for workers' compensation and general liability losses based on our historical loss experience, certain actuarial assumptions of loss development factors and current industry trends. Any changes in our assumptions, actuarial assumptions or loss experience could impact our total insurance cost and overall results of operations.

Our significant accounting policies and recently adopted accounting policies are more fully described in Note 1 to the Consolidated Financial Statements included in Item 8. "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Consolidated Net Revenues

Our net revenues and earnings are influenced by our racing calendar. Therefore, revenues and operating results for any interim quarter are not generally indicative of the revenues and operating results for the year, and may not be comparable with results for the corresponding period of the previous year. We historically have had fewer live racing days during the first quarter of each year, and the majority of our live racing revenue occurs during the second quarter, with the running of the Kentucky Derby and Kentucky Oaks. Information regarding racing dates at our facilities for 2014 and 2013 is included in Subheading "C. Live Racing" in Item 1. "Business" of this Annual Report on Form 10-K.

Our Consolidated Statements of Comprehensive Income include net revenues and operating expenses associated with our Racing Operations, Gaming, Online Business and Other Investments operating segments and are defined as follows:

Racing: net revenues and corresponding operating expenses associated with commissions earned on wagering at the Company's racetracks, OTBs and simulcast fees earned from other wagering sites. In addition, amounts include ancillary revenues and expenses generated by the pari-mutuel facilities including admissions, sponsorships and licensing rights, food and beverage sales and fees for the alternative uses of its facilities.

Gaming: net revenues and corresponding operating expenses generated from slot machines, table games and video poker. In addition, it includes ancillary revenues and expenses generated by food and beverage sales, hotel operations revenue and miscellaneous other revenue.

Online: net revenues and corresponding operating expenses generated by the Company's ADW business from wagering through the Internet, telephone or other mobile devices on pari-mutuel events. In addition, it includes the Company's information business that provides data information and processing services to the equine industry.

Other: net revenues and corresponding operating expenses generated by United Tote, the Company's provider of pari-mutuel wagering systems and Bluff.

During the year ended December 31, 2013, we sold Fight! Magazine, a division of Bluff and reported the loss on sale and results of operations for the year ended December 31, 2013, as discontinued operations. Net revenues, operating expenses and income tax benefit of Fight! Magazine for the year ended December 31, 2012 have been reclassified to discontinued operations to conform to the current year presentation.

During the year ended December 31, 2012, the Company merged the operations of Churchill Downs Simulcast Productions ("CDSP"), the Company's provider of television production services, which was previously included in our Other Investments operating segment, with its Racing Operations operating segment. Net revenues and operating expenses of CDSP for the year ended December 31, 2011 have been reclassified to conform to the current year presentation. There was no impact from these reclassifications on consolidated net revenues, operating income, results of continuing operations, or cash flows.

Pari-mutuel revenues are recognized upon occurrence of the live race that is presented for wagering and after that live race is made official by the respective state's racing regulatory body. Gaming revenues represent net gaming wins, which is the difference between gaming wins and losses. Other operating revenues such as admissions, programs and concession revenues are recognized once delivery of the product or service has occurred.

Our customer loyalty programs offer incentives to customers who wager at the Company's racetracks, through our advance deposit wagering platform, TwinSpires.com, or at our gaming facilities. The TSC Elite program, which was introduced during the year ended December 31, 2012, to replace the previous program, TwinSpires Club, is offered for pari-mutuel wagering at the Company's racetracks or through TwinSpires.com. The Player's Club is offered at the Company's gaming facilities in Louisiana, Florida, Mississippi and Maine. Under the programs, customers are able to accumulate points over time that they may redeem for cash, free play, merchandise or food and beverage items at their discretion under the terms of the programs. As a result of the ability of the customer to accumulate points, we accrue the cost of points, after consideration of estimated forfeitures, as they are earned. Under the TSC Elite program, the estimated value of the cost to redeem points is recorded as the points are earned. To arrive at the estimated cost associated with points, estimates and assumptions are made regarding incremental costs of the benefits, rates and the mix of goods and services for which points will be redeemed. Under the Player's Club program, the retail value of the points-based cash awards or complimentary goods and services is netted against revenue as a promotional allowance. The reward point liabilities were $2.1 million for each of the years ended December 31, 2013 and 2012.

Approximately 42% of our annual revenues are generated by pari-mutuel wagering on live and simulcast racing content through OTBs and ADW providers. Live racing handle includes patron wagers made on live races at our racetracks and also wagers made on imported simulcast signals by patrons at our racetracks during live meets. Import simulcasting handle includes wagers on imported signals at our racetracks when the respective tracks are not conducting live racing meets, at our OTBs and through our ADW providers throughout the year. Export handle includes all patron wagers made on live racing signals sent to other tracks, OTBs and ADW providers. Advance deposit wagering consists of patron wagers through an advance deposit account.

We retain as revenue a pre-determined percentage or commission on the total amount wagered, and the balance is distributed to the winning patrons. The gross percentages earned approximated 10% of handle for our Racing Operations and 20% of handle for our Online Business.

Certain key operating statistics specific to the gaming industry are included in our discussion of performance of the gaming segment. Our slot facilities report slot handle as a volume measurement, defined as the gross amount wagered or coins placed into slot machines in aggregate for the period cited. In addition, our slot facilities and video poker operations report net win per unit, which is calculated as gross gaming revenues, less customer payouts and free play, per machine and per day of operations.

RESULTS OF CONTINUING OPERATIONS

Pari-mutuel Handle

The following table sets forth, for the periods indicated, pari-mutuel financial handle information (in thousands):

	Year Ended December 31,			'13 vs. '12 Change		'12 vs. '11 Change	
	2013	2012	2011	$	%	$	%
Racing and Online Operations:							
Churchill Downs							
Total handle	$ 663,689	$ 596,613	$ 603,328	$ 67,076	11 %	$ (6,715)	(1)%
Net pari-mutuel revenues	$ 57,002	$ 53,538	$ 52,851	$ 3,464	6 %	$ 687	1 %
Commission %	8.6%	9.0%	8.8%				
Arlington							
Total handle	$ 527,339	$ 563,220	$ 547,600	$ (35,881)	(6)%	$ 15,620	3 %
Net pari-mutuel revenues	$ 55,509	$ 60,825	$ 60,343	$ (5,316)	(9)%	$ 482	1 %
Commission %	10.5%	10.8%	11.0%				
Calder							
Total handle	$ 320,036	$ 533,168	$ 534,940	$ (213,132)	(40)%	$ (1,772)	— %
Net pari-mutuel revenues	$ 32,737	$ 61,042	$ 59,151	$ (28,305)	(46)%	$ 1,891	3 %
Commission %	10.2%	11.4%	11.1%				
Fair Grounds							
Total handle	$ 294,991	$ 333,033	$ 340,784	$ (38,042)	(11)%	$ (7,751)	(2)%
Net pari-mutuel revenues	$ 31,123	$ 34,018	$ 35,689	$ (2,895)	(9)%	$ (1,671)	(5)%
Commission %	10.6%	10.2%	10.5%				
Total Racing Operations							
Total handle	$ 1,806,055	$ 2,026,034	$ 2,026,652	$ (219,979)	(11)%	$ (618)	— %
Net pari-mutuel revenues	$ 176,371	$ 209,423	$ 208,034	$ (33,052)	(16)%	$ 1,389	1 %
Commission %	9.8%	10.3%	10.3%				
Online Business (1) (2)							
Total handle	$ 868,735	$ 859,841	$ 775,288	$ 8,894	1 %	$ 84,553	11 %
Net pari-mutuel revenues	$ 166,933	$ 168,795	$ 155,006	$ (1,862)	(1)%	$ 13,789	9 %
Commission %	19.2%	19.6%	20.0%				
Eliminations (1)							
Total handle	$ (133,746)	$ (137,683)	$ (125,571)	$ 3,937	(3)%	$ (12,112)	10 %
Net pari-mutuel revenues	$ (12,495)	$ (13,157)	$ (11,542)	$ 662	(5)%	$ (1,615)	14 %
Total							
Handle	$ 2,541,044	$ 2,748,192	$ 2,676,369	$ (207,148)	(8)%	$ 71,823	3 %
Net pari-mutuel revenues	$ 330,809	$ 365,061	$ 351,498	$ (34,252)	(9)%	$ 13,563	4 %
Commission %	13.0%	13.3%	13.1%				

The pari-mutuel activity above is subject to the following information:

(1) Total handle and net pari-mutuel revenues generated by Velocity are not included in total handle and net pari-mutuel revenues from the Online Business. Eliminations include the elimination of intersegment transactions.

(2) Online Business handle from Illinois and Texas, to reflect the impact of recent regulatory developments, as previously described (in thousands):

	Year Ended December 31,			'13 vs. '12 Change		'12 vs. '11 Change	
	2013	2012	2011	$	%	$	%
Online Business Handle:							
Illinois	$ 40,607	$ 65,619	$ 63,447	$ (25,012)	(38)%	$ 2,172	3%
Texas	42,210	53,932	46,681	(11,722)	(22)%	$ 7,251	16%
All other	785,918	740,290	665,160	45,628	6 %	$ 75,130	11%
Total	$ 868,735	$ 859,841	$ 775,288	$ 8,894	1 %	$ 84,553	11%

Gaming Activity

The following table sets forth, for the periods indicated, statistical gaming information (in thousands, except for average daily information):

	Year Ended December 31,			'13 vs. '12		'12 vs. '11	
	2013 (1)	2012 (2)	2011 (3)	$	%	$	%
Calder Casino							
Net gaming revenues	$ 76,554	$ 75,686	$ 80,511	$ 868	1 %	$ (4,825)	(6)%
Slot handle	$ 1,010,840	$ 1,008,946	$ 1,040,655	$ 1,894	— %	$ (31,709)	(3)%
Net slot revenues	$ 74,008	$ 72,372	$ 76,162	$ 1,636	2 %	$ (3,790)	(5)%
Average daily net win per slot machine	$ 169	$ 164	$ 173	$ 5	3 %	$ (9)	(5)%
Average daily number of slot machines	1,201	1,207	1,209	(6)	— %	(2)	— %
Average daily poker revenue	$ 7,233	$ 9,303	$ 13,476	$ (2,070)	(22)%	$ (4,173)	(31)%
Fair Grounds Slots and Video Poker							
Net gaming revenues	$ 76,665	$ 76,893	$ 75,320	$ (228)	— %	$ 1,573	2 %
Slot handle	$ 436,188	$ 438,095	$ 427,207	$ (1,907)	— %	$ 10,888	3 %
Net slot revenues (4)	$ 40,880	$ 41,875	$ 40,976	$ (995)	(2)%	$ 899	2 %
Average daily net win per slot machine	$ 181	$ 185	$ 180	$ (4)	(2)%	$ 5	3 %
Average daily number of slot machines	620	625	625	(5)	(1)%	—	— %
Average daily video poker revenue	$ 98,441	$ 97,613	$ 96,033	$ 828	1 %	$ 1,580	2 %
Average daily net win per video poker machine	$ 130	$ 137	$ 129	$ (7)	(5)%	$ 8	6 %
Average daily number of video poker machines	756	714	742	42	6 %	(28)	(4)%
Oxford Casino							
Net gaming revenues	$ 32,649	$ —	$ —	$ 32,649	F	$ —	NM
Slot handle	$ 262,699	$ —	$ —	$ 262,699	F	$ —	NM
Net slot revenues	$ 26,689	$ —	$ —	$ 26,689	F	$ —	NM
Average daily net win per slot machine	$ 197	$ —	$ —	$ 197	F	$ —	NM
Average daily number of slot machines	808	—	—	808	F	—	NM
Average daily net win per table	$ 1,588	$ —	$ —	$ 1,588	F	$ —	NM
Average daily number of tables	23	—	—	23	F	—	NM

	Year Ended December 31,			'13 vs. '12		'12 vs. '11	
	2013 (1)	2012 (2)	2011 (3)	$	%	$	%
Harlow's Casino							
Net gaming revenues	$ 49,577	$ 54,087	$ 51,009	$ (4,510)	(8)%	$ 3,078	6 %
Slot handle	$ 604,433	$ 653,406	$ 610,255	$ (48,973)	(7)%	$ 43,151	7 %
Net slot revenues	$ 45,349	$ 49,021	$ 46,289	$ (3,672)	(7)%	$ 2,732	6 %
Average daily net win per slot machine	$ 155	$ 163	$ 157	$ (8)	(5)%	$ 6	4 %
Average daily number of slot machines	799	821	868	(22)	(3)%	(47)	(5)%
Average daily poker revenue (5)	$ 754	$ 701	$ 880	$ 53	8 %	$ (179)	(20)%
Average daily net win per table	$ 750	$ 875	$ 894	$ (125)	(14)%	$ (19)	(2)%
Average daily number of tables	15	15	15	—	— %	—	— %
Riverwalk Casino							
Net gaming revenues	$ 50,513	$ 9,914	$ —	$ 40,599	F	$ 9,914	F
Slot handle	$ 591,975	$ 109,787	$ —	$ 482,188	F	$ 109,787	F
Net slot revenues	$ 47,405	$ 9,328	$ —	$ 38,077	F	$ 9,328	F
Average daily net win per slot machine	$ 181	$ 181	$ —	$ —	— %	$ 181	F
Average daily number of slot machines	716	736	—	(20)	(3)%	736	F
Average daily net win per table	$ 596	$ 616	$ —	$ (20)	(3)%	$ 616	F
Average daily number of tables	18	18	—	—	— %	$ 18	F
Total							
Net gaming revenues	$ 285,958	$ 216,580	$ 206,840	$ 69,378	32 %	$ 9,740	5 %

NM: Not meaningful U: > 100% unfavorable F: >100% favorable

The gaming activity presented above is subject to the following information:

(1) On July 17, 2013, we completed the acquisition of Oxford, whose results are presented in 2013 from the date of acquisition through December 31, 2013.

(2) On October 23, 2012, we completed the acquisition of Riverwalk, whose results are presented in 2012 from the date of acquisition through December 31, 2012.

(3) Certain gaming activity amounts including hotel revenue and certain promotional allowances have been excluded from prior year amounts to conform to current year presentation. There was no impact from these reclassifications on total consolidated net revenues, operating expenses or cash flows.

(4) Certain slot revenue amounts including promotional allowances have been excluded from prior year amounts to conform to current year presentation. There was no impact from these reclassifications on total consolidated net revenues, operating expenses or cash flows.

(5) Harlow's poker room closed during July 2013.

Executive Summary

The following table sets forth, for the periods indicated, total consolidated revenues, including food and beverage, admissions and ancillary revenues, and certain other financial information and operating data (in thousands, except per common share data and live race days):

	Year Ended December 31,			'13 vs. '12 Change		'12 vs. '11 Change	
	2013	2012	2011	$	%	$	%
No. of live race days	374	381	368	(7)	(2)%	13	4 %
Net revenues:							
Racing Operations	$ 274,269	$ 302,088	$ 298,920	$ (27,819)	(9)%	$ 3,168	1 %
Gaming	297,473	223,112	212,629	74,361	33 %	10,483	5 %
Online Business	184,541	183,279	165,416	1,262	1 %	17,863	11 %
Other	23,042	22,817	19,889	225	1 %	2,928	15 %
Total net revenues	$ 779,325	$ 731,296	$ 696,854	$ 48,029	7 %	$ 34,442	5 %
Operating income	$ 90,100	$ 96,550	$ 81,010	$ (6,450)	(7)%	$ 15,540	19 %
Operating income margin	12%	13%	12%				
Earnings from continuing operations	$ 55,033	$ 58,152	$ 60,795	$ (3,119)	(5)%	$ (2,643)	(4)%
Diluted net earnings from continuing operations per common share	$ 3.07	$ 3.33	$ 3.55				

Year Ended December 31, 2013, Compared to the Year Ended December 31, 2012

Our total net revenues increased $48.0 million during the year ended December 31, 2013, compared to the same period of 2012, primarily from the continuing expansion of our Gaming segment through the acquisitions of Riverwalk and Oxford. Gaming revenues increased $74.4 million, reflecting $53.6 million in revenues at Riverwalk, which was acquired on October 23, 2012 and $34.4 million in revenues at Oxford, which was acquired on July 17, 2013. Revenues generated by Racing Operations decreased $27.8 million as strong Kentucky Oaks and Kentucky Derby week revenues were more than offset by the loss of Florida hosting revenues at Calder and the loss of eighteen host days at Arlington during the year ended December 31, 2013. Online Business revenues increased $1.3 million during the year ended December 31, 2013, as increased revenue from organic customer growth at TwinSpires and Velocity was partially offset by the effect of the temporary expiration of Illinois legislation permitting Illinois residents to wager online. Furthermore, on September 25, 2013, we ceased accepting wagers from Texas residents due to the loss of a lawsuit challenging a state law requiring residents to wager in person at a Texas racetrack, further impacting revenues from the Online Business.

For the year ended December 31, 2013, our operating income decreased by $6.5 million, primarily due to a $6.6 million decrease in insurance recoveries, a $7.5 million increase in share-based compensation expense associated with the performance of the Company and the loss of Florida hosting revenues. Partially offsetting these declines was the effect of incremental operating income from the Riverwalk and Oxford acquisitions and strong Kentucky Oaks and Kentucky Derby week results. Further discussion of results by our reported segments is detailed below.

Year Ended December 31, 2012, Compared to the Year Ended December 31, 2011

Our total net revenues increased $34.4 million, primarily from the continuing organic growth of our Online Business segment and from the acquisition of Riverwalk. Online Business revenues increased $17.9 million during the year ended December 31, 2012, compared to the same period of 2011, primarily reflecting an increase in Online Business handle of 10.9%. Gaming revenues increased $10.5 million, primarily reflecting $10.3 million in revenue generated at Riverwalk, which was acquired on October 23, 2012. In addition, gaming revenues increased $3.4 million at Harlow's during the year ended December 31, 2012, which was closed for twenty-five days during the same period of 2011, as a result of damage sustained from the Mississippi River flooding. These increases were partially offset by a $5.0 million decline at Calder Casino during the year ended December 31, 2012 due to increased regional competitive pressure from the opening of a new casino in Miami during January 2012, along with what we believed to be a weak South Florida economy. Revenues generated by Racing Operations increased $3.2 million, primarily reflecting an increase in revenues at Churchill Downs due to a strong performance from Kentucky Oaks and Kentucky Derby week and a 4% increase in live race days during the year ended December 31, 2012 as compared to the prior year.

Furthermore, other operating revenues increased $2.9 million predominantly due to an increase in handle-based revenue from United Tote.

For the year ended December 31, 2012, our operating income increased $15.5 million due to incremental operating income from Kentucky Oaks and Kentucky Derby week results. In addition, our Online Business operating income improved from organic handle growth. Finally, insurance recoveries increased $6.0 million as compared to the year ended December 31, 2011. Partially offsetting these improvements was a $4.3 million increase in share-based compensation. Further discussion of results by our reported segments is detailed below.

Consolidated Operating Expenses

The following table is a summary of our consolidated operating expenses (in thousands):

	Year Ended December 31,			'13 vs. '12 Change		'12 vs. '11 Change	
	2013	2012	2011	$	%	$	%
Purses & pari-mutuel taxes	$ 111,198	$ 125,490	$ 125,635	$ (14,292)	(11)%	$ (145)	— %
Gaming taxes	70,481	52,306	52,026	18,175	35 %	280	1 %
Depreciation/amortization	61,750	55,600	55,170	6,150	11 %	430	1 %
Other operating expenses	362,725	334,527	318,484	28,198	8 %	16,043	5 %
SG&A expenses	83,446	73,829	65,501	9,617	13 %	8,328	13 %
Insurance recoveries, net of losses	(375)	(7,006)	(972)	6,631	(95)%	(6,034)	F
Total expenses	$ 689,225	$ 634,746	$ 615,844	$ 54,479	9 %	$ 18,902	3 %
Percent of revenue	88%	87%	88%				

Year Ended December 31, 2013, Compared to the Year Ended December 31, 2012

Significant items affecting comparability of consolidated operating expenses include:

- Other operating expenses increased $28.2 million, primarily reflecting an increase of $31.8 million in operating expenses generated by Riverwalk and Oxford during the year ended December 31, 2013. In addition, salary expenditures increased $1.7 million, primarily associated with the continued development of the Online Business segment. Furthermore, we incurred operating expenses of $1.1 million associated with a new video poker location in Louisiana which opened during January 2013. Finally, we incurred $3.1 million in operating expenses related to the development of Internet gaming technology, including $2.5 million of bad debt expense associated with a third-party deposit for which collectibility is not probable. Partially offsetting these increases were decreases in other racing expenses of $5.6 million associated with Calder's loss of Florida host revenues during the year ended December 31, 2013. Finally, Online Business content expenses declined due to the favorable settlement of litigation and the cessation of operations in Texas and Illinois during portions of 2013.
- Gaming taxes increased $18.2 million, primarily due to our acquisitions of Riverwalk and Oxford, which incurred gaming taxes of $19.4 million during the year ended December 31, 2013.
- Purses and pari-mutuel taxes decreased $14.3 million, primarily as the result of the decline in pari-mutuel revenues within our Racing Operations, which corresponds with a 10.9% decrease in pari-mutuel handle compared to the same period of 2012. Calder generated a decline in purses and pari-mutuel taxes of $13.2 million, primarily due to the loss of Florida hosting revenues. Partially offsetting this decline was an increase in pari-mutuel taxes within the Online Business, due to an increase in the number of states which assess pari-mutuel taxes on ADW wagering.
- SG&A expenses increased $9.6 million due to our acquisitions of Riverwalk and Oxford, which incurred an increase of $3.6 million in selling and general expenses during the year ended December 31, 2013. In addition, we incurred an increase of $7.5 million in share-based compensation expense during the period, which includes expenditures related to grants made under the New Company LTIP. We recognized a recovery of $0.8 million in selling and general expenses at Calder Casino during the year ended December 31, 2012, related to a reimbursement of certain administrative expenditures associated with a slot machine referendum held during 2005. Partially offsetting these increases were reductions in nonrecurring executive compensation expenditures of $1.6 million and reductions in professional and consulting fees of $0.7 million.

- Insurance recoveries, net of losses decreased $6.6 million during the year ended December 31, 2013, primarily due to the prior year recognition of insurance recoveries associated with 2011 flood and wind damage at Harlow's. Partially offsetting this decline was the recognition of recoveries of $0.4 million during the year ended December 31, 2013 associated with 2012 hail damage at Churchill Downs.
- Depreciation and amortization expense increased $6.2 million during the year ended December 31, 2013, primarily due to the acquisitions of Riverwalk and Oxford which incurred expenses of $7.6 million during the year.

Year Ended December 31, 2012, Compared to the Year Ended December 31, 2011

Significant items affecting comparability of consolidated operating expenses include:

- Other operating expenses increased $16.0 million, primarily as a result of increased content costs within the Online Business of $8.0 million, which corresponds to the 10.9% increase in pari-mutuel handle during the year ended December 31, 2012. In addition, we incurred $1.7 million in expenses associated with the October 2012 launch of Luckity, our newest ADW venture. We also recognized a non-recurring expense of $0.4 million to credit the wagering accounts of our Online Business customers impacted by incorrect wagering payoffs from a New York Racing Association error that occurred during 2010 and 2011. Furthermore, we recognized a $2.5 million reduction in sales tax expense at Churchill Downs involving a Tax Increment Financing ("TIF") agreement with the Commonwealth of Kentucky during the year ended December 31, 2011. Finally, operating expenses increased $6.6 million due to our acquisitions of Riverwalk and Bluff during the year ended December 31, 2012. Partially offsetting these increases were decreases in labor costs, lower utility expenses and other cost control measures implemented by our Racing Operations during the year ended December 31, 2012.
- SG&A expenses increased $8.3 million, due, in part, to an increase in equity and long-term incentive compensation expense of $4.0 million during the year ended December 31, 2012, which primarily reflects the amortization of restricted stock awards granted under the Company's long-term incentive plan ("LTIP") for the 2008, 2009 and 2010 LTIP Plan years and an estimate for the 2011 and 2012 LTIP Plan years. In addition, selling and general expenses increased $2.0 million due to our acquisitions of Riverwalk and Bluff during the year ended December 31, 2012. In addition, we incurred non-recurring employee costs of $1.5 million during the year ended December 31, 2012, compared to the same period of 2011. Furthermore, selling, general and administrative expenses increased $0.8 million for the October 2012 launch of Luckity during the year ended December 31, 2012. Finally, TwinSpires incurred expenses of $0.3 million related to a data security incident during the year ended December 31, 2012. Partially offsetting these increases was a recovery of $0.8 million recognized by Calder Casino as a reduction to selling, general and administrative expenses during the year ended December 31, 2012 relating to a reimbursement of certain administrative expenditures associated with a slot machine referendum held in Miami-Dade County during 2005.
- Insurance recoveries, net of losses, increased $6.0 million, reflecting the final settlement of our property insurance claims related to wind and flood damage sustained at Harlow's during February 2011 and May 2011, respectively.
- Gaming taxes increased $0.3 million, primarily due to our acquisition of Riverwalk, partially offset by the decline in revenue at Calder Casino resulting from increased competitive pressures from the opening of a new casino in Miami during the year ended December 31, 2012.

Other Income (Expense) and Provision for Income Taxes

The following table is a summary of our other income (expense) and income tax provision (in thousands):

	Year Ended December 31,			'13 vs. '12 Change		'12 vs. '11 Change	
	2013	2012	2011	$	%	$	%
Interest income	$ 112	$ 90	$ 468	$ 22	24 %	$ (378)	(81)%
Interest expense	(6,231)	(4,531)	(8,924)	(1,700)	(38)%	4,393	49 %
Equity in loss of unconsolidated investments	(4,142)	(1,701)	(1,113)	(2,441)	U	(588)	(53)%
Miscellaneous, net	5,667	819	23,643	4,848	F	(22,824)	(97)%
Other income (expense)	$ (4,594)	$ (5,323)	$ 14,074	$ 729	14 %	$ (19,397)	U
Income tax provision	$ (30,473)	$ (33,075)	$ (34,289)	$ 2,602	8 %	$ 1,214	4 %
Effective tax rate	36%	36%	36%				

Year Ended December 31, 2013, Compared to the Year Ended December 31, 2012

Significant items affecting the comparability of other income and expense and the income tax provision include:

- Miscellaneous other income increased $4.8 million, primarily due to the recognition of the final HRE Trust Fund proceeds of $4.5 million related to the Illinois riverboat casino surcharge during the year ended December 31, 2013.
- Equity in loss of unconsolidated investments increased $2.4 million during the year ended December 31, 2013, primarily due to preopening expenses of $3.6 million related to our investment in MVG. Partially offsetting this increase were favorable gaming results from MVG of $0.5 million subsequent to its opening on December 12, 2013, and the performance of our investment in HRTV, which improved $0.6 million.
- Interest expense increased $1.7 million during the year ended December 31, 2013, primarily as a result of higher average outstanding debt balance under our Senior Secured Credit Facility required for financing the acquisitions of Riverwalk, Oxford and MVG development. In addition, amortization of loan origination and debt issuance costs were $0.7 million during the year ended December 31, 2013.
- The effective tax rate for the year ended December 31, 2013 was affected by the recognition of income tax benefits of $0.9 million related to 2012 and 2013 research and development tax credits.

Year Ended December 31, 2012, Compared to the Year Ended December 31, 2011

Significant items affecting the comparability of other income and expense and the income tax provision include:

- Miscellaneous other income decreased $22.8 million, primarily reflecting the impact of recognizing income of $19.3 million related to the HRE Trust Fund during the year ended December 31, 2011. In addition, during 2011, we recorded a gain of $2.7 million and the elimination of other income related to the long put option and short call option associated with a related party convertible note payable that was converted into common stock during the year ended December 31, 2011.
- Interest expense decreased $4.4 million during the year ended December 31, 2012, due in part to lower interest expense of $2.8 million under our senior secured credit facility associated with lower average outstanding debt balances during the year ended December 31, 2012, compared to the same period of 2011. In addition, during 2012, we did not incur interest expense related to the convertible note payable which was converted during the prior year. During the year ended December 31, 2011, interest expense, including conversion charges, of $1.6 million was incurred, associated with the convertible note payable.
- Equity in loss of unconsolidated investments increased $0.6 million during the year ended December 31, 2012, related to our investment in MVG.

Net Revenues By Segment

The following table presents net revenues, including intercompany revenues, by our reported segments (in thousands):

	Year Ended December 31,			'13 vs. '12 Change		'12 vs. '11 Change	
	2013	2012	2011	$	%	$	%
Churchill Downs	$ 139,531	$ 129,847	$ 126,974	$ 9,684	7 %	$ 2,873	2 %
Arlington	67,878	73,789	73,419	(5,911)	(8)%	370	1 %
Calder	37,527	66,149	65,022	(28,622)	(43)%	1,127	2 %
Fair Grounds	41,828	45,460	45,789	(3,632)	(8)%	(329)	(1)%
Total Racing Operations	286,764	315,245	311,204	(28,481)	(9)%	4,041	1 %
Calder Casino	78,951	77,864	82,819	1,087	1 %	(4,955)	(6)%
Fair Grounds Slots	42,156	42,881	41,553	(725)	(2)%	1,328	3 %
VSI	35,931	35,433	35,052	498	1 %	381	1 %
Harlow's Casino	52,440	56,604	53,205	(4,164)	(7)%	3,399	6 %
Oxford Casino	34,350	—	—	34,350	F	—	—
Riverwalk Casino	53,645	10,330	—	43,315	F	10,330	F
Total Gaming	297,473	223,112	212,629	74,361	33 %	10,483	5 %
Online Business	185,394	184,115	166,202	1,279	1 %	17,913	11 %
Other Investments	26,308	25,251	21,578	1,057	4 %	3,673	17 %
Corporate	1,143	1,032	326	111	11 %	706	F
Eliminations	(17,757)	(17,459)	(15,085)	(298)	(2)%	(2,374)	(16)%
	$ 779,325	$ 731,296	$ 696,854	$ 48,029	7 %	$ 34,442	5 %

Year Ended December 31, 2013, Compared to the Year Ended December 31, 2012

Significant items affecting comparability of our revenues by segment include:

- Gaming revenues increased $74.4 million, primarily reflecting revenue from the acquisitions of Riverwalk, which was acquired on October 23, 2012, and Oxford, which was acquired on July 17, 2013. Calder Casino revenues increased during the period as directed marketing efforts implemented during 2013 and the closure of Florida Internet cafes offset continued regional competitive pressures from the opening of additional Miami casinos during January 2012 and August 2013. Partially offsetting these increases was a decrease in net revenues of $4.2 million at Harlow's during 2013 due to continued weakness in the region and disruptions from casino floor modifications to address competitive pressures. Fair Grounds Slots and VSI revenues decreased $0.2 million compared to the same period of 2012, as local market weakness more than offset additional video poker revenues from the opening of a new video poker facility during January 2013.

- Racing Operations revenues decreased $28.5 million, as strong Kentucky Oaks and Derby week results and the revenues from the new twelve-day September live racing meet at Churchill Downs were more than offset by weaknesses at the Company's other racetracks. Kentucky Oaks and Derby week revenues improved from the same period of 2012 due to revenues from a newly opened luxury facility, the Mansion, in addition to increased ticket sales and sponsorships and other new Kentucky Oaks and Derby week offerings. However, Calder revenues declined $28.6 million during 2013, primarily due to the loss of Florida hosting revenues of approximately $21.2 million and fewer live racing days revenue of $7.4 million, as more fully discussed in "*Item 7. Management's Discussion and Analysis: Recent Developments.*" Arlington revenues decreased $5.9 million compared to the same period of 2012, primarily due to the temporary cessation of Illinois ADW wagering, the loss of eighteen host days and poor weather conditions which hampered attendance and wagering. Host days are awarded in Illinois by the IRB to racetracks that are not conducting live horseracing, for which a host racetrack receives a percentage of earnings from pari-mutuel wagering activity at other racetracks throughout Illinois. Fair Grounds revenues declined $3.6 million during 2013 due to inclement weather conditions unfavorably impacting both the 2013 live racing meets and Jazz Fest.

- Online Business revenues increased $1.3 million, as organic customer growth at TwinSpires and Velocity was primarily offset by the temporary expiration of legislation allowing Illinois residents to wager online. On June 7, 2013, TwinSpires resumed accepting wagers from Illinois residents, which had previously ceased on January 18, 2013. Furthermore, on September 25, 2013, TwinSpires ceased accepting wagers from Texas residents due to the enforcement of an existing state law which permits Texas residents to wager on pari-mutuel events only at Texas racetracks. The impact of the Illinois and Texas disruptions represented a 4.3% decline in total handle during 2013 as compared to the same period of 2012.

- Other Investments revenues increased $1.1 million, due primarily to an increase in equipment sales at United Tote.

Year Ended December 31, 2012, Compared to the Year Ended December 31, 2011

Significant items affecting comparability of our revenues by segment include:

- Online Business revenues increased $17.9 million, reflecting a 10.9% increase in our pari-mutuel handle, from both continuing organic growth in customers and an increase in average daily wagering from existing customers.
- Gaming revenues increased $10.5 million, primarily reflecting revenue generated at Riverwalk, which was acquired on October 23, 2012. In addition, gaming revenues increased $3.4 million at Harlow's during the year ended December 31, 2012, which was closed for twenty-five days during the same period of 2011 as a result of Mississippi River flood damage. Partially offsetting these increases was a decrease in net revenues of $5.0 million at Calder Casino during the year ended December 31, 2012. Calder Casino slot revenues declined 5.0% as a result of increased regional competitive pressures from a new casino in Miami, which opened during January 2012, and what we believed to be a weak South Florida economy.
- Other Investments revenues increased $3.7 million, due, in part, to an increase in handle-based revenues at United Tote during the year ended December 31, 2012. In addition, we benefitted from our acquisition of Bluff during the year ended December 31, 2012.
- Racing Operations revenues increased $4.0 million, primarily reflecting an increase in revenues at Churchill Downs due to a strong performance from Kentucky Oaks and Derby week and thirteen additional live race days during the year ended December 31, 2012, as compared to the same period during 2011. These increases were partially offset by the impact of not hosting the Breeders' Cup during 2012, which was held at Churchill Downs during the year ended December 31, 2011.

Adjusted Segment EBITDA

In order to evaluate the performance of these operating segments internally, we use Adjusted EBITDA (defined as earnings before interest, taxes, depreciation, amortization, insurance recoveries net of losses, HRE Trust Fund proceeds, share-based compensation expenses, pre-opening expenses, the impairment of assets and other charges or recoveries). Adjusted EBITDA also includes 50% of the operating income or loss of our joint venture, MVG. We believe that the use of Adjusted EBITDA as a key performance measure of the results of operations enables management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. Adjusted EBITDA is a supplemental measure of the Company's performance that is not required by, or presented in accordance with, generally accepted accounting principles ("GAAP"). However, Adjusted EBITDA should not be considered as an alternative to, or more meaningful than, net earnings (as determined in accordance with GAAP) as a measure of our operating results. The following table presents Adjusted EBITDA by our operating segments and a reconciliation of EBITDA to net earnings (in thousands):

	Year Ended December 31,			'13 vs. '12 Change		'12 vs. '11 Change	
	2013	2012	2011	$	%	$	%
Racing Operations	$ 50,275	$ 54,357	$ 47,236	$ (4,082)	(8)%	$ 7,121	15 %
Gaming	80,429	64,231	58,590	16,198	25 %	5,641	10 %
Online Business	49,122	44,618	40,918	4,504	10 %	3,700	9 %
Other Investments	1,011	(117)	1,269	1,128	F	(1,386)	U
Corporate	(4,606)	(4,834)	(2,523)	228	(5)%	(2,311)	92 %
Total Adjusted EBITDA	$ 176,231	$ 158,255	$ 145,490	$ 17,976	11 %	$ 12,765	9 %
Insurance recoveries, net of losses	375	7,006	972	(6,631)	(95)%	6,034	F
HRE Trust Fund proceeds	4,541	—	19,258	4,541	F	(19,258)	U
Share-based compensation	(21,482)	(13,993)	(9,730)	(7,489)	54 %	(4,263)	44 %
Pre-opening costs	(3,620)	—	—	(3,620)	U	—	— %
MVG interest expense, net	(170)	—	—	(170)	U	—	— %
Other charges and recoveries, net	(2,500)	—	2,720	(2,500)	U	(2,720)	U
Depreciation and amortization	(61,750)	(55,600)	(55,170)	(6,150)	11 %	(430)	1 %
Interest income (expense), net	(6,119)	(4,441)	(8,456)	(1,678)	38 %	4,015	(47)%
Income tax provision	(30,473)	(33,075)	(34,289)	2,602	(8)%	1,214	(4)%
Earnings from continuing operations	55,033	58,152	60,795	(3,119)	(5)%	(2,643)	(4)%
Discontinued operations, net of income taxes	(133)	124	3,560	(257)	U	(3,436)	U
Net earnings and comprehensive income	$ 54,900	$ 58,276	$ 64,355	$ (3,376)	(6)%	$ (6,079)	(9)%

Excluding corporate share-based compensation, the table below presents intercompany management fees (expense) income included in the Adjusted EBITDA of each of the operating segments for the years ended December 31, 2013, 2012 and 2011, respectively (in thousands).

	Year Ended December 31,			'13 vs. '12 Change		'12 vs. '11 Change	
	2013	2012	2011	$	%	$	%
Racing Operations	$ (6,978)	$ (8,063)	$ (8,476)	1,085	13 %	$ 413	5 %
Gaming	(7,238)	(5,705)	(5,813)	(1,533)	(27)%	108	2 %
Online Business	(4,428)	(4,679)	(4,544)	251	5 %	(135)	(3)%
Other Investments	(603)	(627)	(652)	24	4 %	25	4 %
Corporate Income	19,247	19,074	19,485	173	1 %	(411)	(2)%
Total management fees	$ —	$ —	$ —	$ —		$ —	

Year Ended December 31, 2013, Compared to the Year Ended December 31, 2012

Significant items affecting comparability of our Adjusted EBITDA by segment include:

- Gaming Adjusted EBITDA increased $16.2 million, driven by an increase in Riverwalk Adjusted EBITDA of $13.0 million and Oxford Adjusted EBITDA of $9.2 million. Partially offsetting this increase was a decline in Harlow's Adjusted EBITDA of $3.6 million as compared to the same period of 2012 driven by general economic weakness and lower customer discretionary spending in the region. In addition, during 2013, Harlow's experienced disruptions from modifying its casino floor to combat competitive pressures in the market and from expanding its high-stakes slot positions. Calder Casino recognized proceeds during the prior year of $0.8 million as a reduction to SG&A expense relating to a reimbursement of certain administrative expenditures for a prior year slot referendum. Excluding the prior year recovery, Calder Casino Adjusted EBITDA improved $0.3 million compared to the same period of 2012. Calder Casino was favorably impacted by its strategic player marketing efforts, the closure of Internet cafes in the State of Florida, and a successful advertising campaign, which mitigated the impact of new, competing casinos which opened during August 2013 and January 2012 in the South Florida region. Finally, Fair Grounds Slots and VSI Adjusted EBITDA decreased $1.9 million as weakness in the New Orleans market more than offset the opening of a new video poker facility.

- Online Business Adjusted EBITDA increased $4.5 million during the year ended December 31, 2013, reflecting a 1.0% increase in our pari-mutuel handle, which was partially offset by an increase in pari-mutuel taxes associated with additional state legislative requirements. Velocity Adjusted EBITDA increased from both the addition of a new high volume wagering customer and increased wagering by existing customers. Online Business content expenses declined due to the favorable settlement of litigation. In addition, our investment in HRTV improved $0.6 million during the year ended December 31, 2013. Finally, the Online Business incurred $2.2 million in expenses associated with the continuing development of Luckity, a decrease of $0.4 million as compared to the same period of 2012. Partially offsetting these improvements was the unfavorable impact from the temporary loss of Illinois ADW wagering and the exit from Texas ADW wagering, which generated a combined handle decline of 4.3% and a reduction in Adjusted EBITDA of $2.7 million during the year ended December 31, 2013.
- Racing Operations Adjusted EBITDA decreased $4.1 million during the year ended December 31, 2013. Churchill Downs Adjusted EBITDA improved $5.8 million from increased profitability from Kentucky Oaks and Derby week and $2.8 million from its new September live racing meet. In addition, Racing Operations benefited from lower labor costs and other cost control measures related to renovations at Churchill Downs Racetrack, including a new simulcasting facility. Offsetting these improvements was a $9.0 million decline in Adjusted EBITDA at Calder of which approximately $6.3 million was associated with the loss of Florida hosting revenues, approximately $1.8 million was associated with fewer live racing days and approximately $0.9 million with other ancillary items during the year ended December 31, 2013. Furthermore, Arlington Adjusted EBITDA declined $2.3 million due to eighteen fewer host days and a decline in pari-mutuel handle of 6.4%. Finally, Fair Grounds Adjusted EBITDA decreased $1.4 million due to inclement weather conditions unfavorably impacting both the 2013 racing meets and Jazz Fest.
- Other Investments Adjusted EBITDA increased $1.1 million, primarily due to incremental equipment sales at United Tote and 50% of the operating results of our joint venture, MVG, which improved $0.8 million during the year. Partially offsetting this improvement were operating costs of $1.1 million associated with our Internet gaming initiatives.

The following other items affected earnings from continuing operations during the year ended December 31, 2013:

- Insurance recoveries, net of losses, decreased $6.6 million during the year ended December 31, 2013, primarily due to the prior year recognition of insurance recoveries associated with 2011 flood and wind damage at Harlow's.
- HRE Trust Fund proceeds of $4.5 million were recognized as miscellaneous other income during the year ended December 31, 2013, reflecting Arlington's final share of the disbursement of funds related to the riverboat casino license surcharge.
- Share-based compensation expense increased $7.5 million compared to the same period of 2012 primarily due to expenses associated with grants made under the New Company LTIP.
- Pre-opening costs of $3.6 million were incurred during the year ended December 31, 2013 associated with our investment in MVG, which opened a video lottery facility and a new harness racing facility on December 12, 2013.
- MVG interest expense, net increased $0.2 million due to our share of financing costs incurred by the joint venture.
- Other charges and recoveries, net increased $2.5 million as the collectibility of a third-party deposit associated with an Internet gaming license was not deemed probable.
- Depreciation and amortization expense increased $6.2 million during the year ended December 31, 2013 driven primarily by the Riverwalk and Oxford acquisitions. Depreciation expense at United Tote decreased $2.0 million as certain assets acquired in the 2009 acquisition were fully depreciated during 2012.

Year Ended December 31, 2012, Compared to the Year Ended December 31, 2011

Significant items affecting comparability of our Adjusted EBITDA by segment include:

- Racing Operations Adjusted EBITDA increased $7.1 million due to improvements in Adjusted EBITDA at each of our racing properties. Churchill Downs Adjusted EBITDA increased as increased profitability of $5.4 million from Kentucky Oaks and Derby week was partially offset by the unfavorable impact of items recognized during

2011 which did not recur during 2012. During the year ended December 31, 2011, Churchill Downs recognized a $3.1 million reduction in operating expenses from a TIF agreement with the Commonwealth of Kentucky as compared to $0.7 million reduction in operating expenses during the year ended December 31, 2012. Furthermore, Churchill Downs benefitted from hosting the Breeders' Cup during the year ended December 31, 2011. Finally, Racing Operations Adjusted EBITDA benefitted from lower labor costs, utility expenses and other cost control measures as compared to the same period of 2011.

- Gaming Adjusted EBITDA increased $5.6 million, primarily due to a full year of operations at Harlow's and the acquisition of Riverwalk. Harlow's generated Adjusted EBITDA of $20.7 million during the year ended December 31, 2012 compared to Adjusted EBITDA of $17.6 million during the prior year. The improvement in Harlow's profitability during 2012 is due to the closure of the facility for twenty-five days during 2011 due to Mississippi River flooding. In addition, our acquisition of Riverwalk generated Adjusted EBITDA of $3.0 million during the year ended December 31, 2012. Partially offsetting these increases was a decline in Adjusted EBITDA at Calder Casino, which generated Adjusted EBITDA of $13.6 million during the year ended December 31, 2012, compared to Adjusted EBITDA of $14.5 million during the prior year. Results at Calder Casino were negatively impacted by a 5.0% decrease in slot revenues, primarily due to increased regional competitive pressures from a new casino in Miami which opened during January 2012, and what we believed to be a weak South Florida economy. Partially offsetting the decline in gaming revenues at Calder Casino was the recognition of proceeds of $0.8 million as a reduction to SG&A expenses during the year ended December 31, 2012, relating to a reimbursement of certain administrative expenditures for a prior year slot machine referendum. Our Louisiana operations generated Adjusted EBITDA of $26.9 million and $26.6 million during each of the years ended December 31, 2012 and 2011, respectively.
- Online Business Adjusted EBITDA increased $3.7 million, primarily reflecting a 10.9% increase in our pari-mutuel handle from continuing organic growth in customers during the year ended December 31, 2012. Partially offsetting this increase were nonrecurring employee costs of $1.1 million in addition to expenditures of $2.5 million related to the October 2012 launch of Luckity, our newest ADW venture. In addition, we incurred increased losses of $0.7 million related to our equity investment in HRTV and $0.4 million in expenditures to credit the wagering accounts of our Online Business customers impacted by incorrect wagering payoffs from a New York Racing Association error that occurred during 2010 and 2011.
- Other Investments Adjusted EBITDA decreased $1.4 million primarily due to expenditures related to our equity investment in MVG and our acquisition of Bluff during the year ended December 31, 2012.
- Corporate Adjusted EBITDA decreased $2.3 million due to increases of $1.0 million in professional and legal fees and $0.4 million in facility expenses associated with our corporate office relocation. In addition, there was a decrease of $0.4 million in corporate management fee income.

The following other items affected net earnings from continuing operations:

- HRE Trust Fund proceeds of $19.3 million were recognized as miscellaneous other income during the year ended December 31, 2011, reflecting the release of restrictions on the HRE Trust Fund.
- Insurance recoveries, net of losses, increased $6.0 million during the year ended December 31, 2012 primarily due to recognition of insurance recoveries associated with both 2011 flood and wind damage at Harlow's and 2012 hail damage at Churchill Downs.
- Share-based compensation expense increased $4.3 million compared to the same period of 2011 as we recognized higher long-term incentive compensation expenses related to the financial performance of the Company.
- Other charges and recoveries, net decreased $2.7 million due to the recognition of a gain of $2.7 million associated with a related party convertible note payable that was converted into common stock during the year ended December 31, 2011.

Discontinued Operations

Fight! Magazine, Hoosier Park and Hollywood Park Racetrack have been accounted for as discontinued operations. Accordingly, the results of operations of the sold businesses for all periods presented and the (losses) gains on sold businesses have been classified as discontinued operations, net of income taxes, in the Consolidated Statements of Comprehensive Income. Set forth below is a summary of the results of operations of discontinued businesses for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,			'13 vs. '12 Change		'12 vs. '11 Change	
	2013	2012	2011	$	%	$	%
Net revenues	$ 632	$ 1,087	$ —	$ (455)	(42)%	$ 1,087	F
Operating expenses	857	885	12	(28)	(3)%	873	U
Selling, general and administrative expenses	—	—	(11)	—	—	11	U
Operating (loss) gain	(225)	202	(1)	(427)	U	203	F
Other income (expense)	145	(2)	—	147	F	(2)	U
(Loss) earnings from operations before income taxes	(80)	200	(1)	(280)	U	201	F
Income tax benefit (provision)	30	(76)	—	106	F	(76)	U
(Loss) gain from operations	(50)	124	(1)	(174)	U	125	F
(Loss) gain on sale of assets, net of income taxes	(83)	—	3,561	(83)	U	(3,561)	U
Net (loss) gain	$ (133)	$ 124	$ 3,560	$ (257)	U	$ (3,436)	(97)%

Sale of Fight! Magazine

On December 16, 2013, the Company completed the sale of 100% of the assets of Fight! Magazine ("Fight"), a division of Bluff which was acquired by the Company in February 2012. Net revenues, operating expenses and the loss on sale of Fight for the years ended December 31, 2013 and 2012, have been reclassified to discontinued operations. There was no impact from these reclassifications on net earnings or cash flows.

Hoosier Park Consideration

In accordance with the Company's sale of its ownership interest in Hoosier Park to Centaur Racing, LLC ("Centaur") during 2007, the Company received a promissory note (the "Note") in the amount of $4.0 million plus interest. The Partnership Interest Purchase Agreement documenting such sale to Centaur also included a contingent consideration provision whereby the Company was entitled to payments of up to $15 million on the date which is 18 months after the date that slot machines are operational at Hoosier Park. During June 2008, Hoosier Park commenced its slot operations, fulfilling the terms of the contingency provision. However, due to uncertainties regarding collectability, the Company did not recognize the contingent consideration at the date of sale.

On October 1, 2011, the Company received $5.1 million in repayment of the amount owed to the Company pursuant to the Note. In addition, the Company also received $3.4 million as the final settlement of the contingent consideration provision of the Partnership Interest Purchase Agreement, which was recognized as a gain in discontinued operations during the year ended December 31, 2011.

Hollywood Park Racetrack

In addition, we recognized operating expenses of $0.1 million during the year ended December 31, 2013, from adjustments related to workers' compensation reserves retained by the Company subsequent to our sale of Hollywood Park Racetrack during 2005.

Consolidated Balance Sheet

The following table is a summary of our overall financial position as of December 31, 2013 and 2012 (in thousands):

	Year Ended December 31,		'13 vs. '12 Change	
	2013	2012	$	%
Total assets	$ 1,352,261	$ 1,114,337	$ 237,924	21%
Total liabilities	$ 647,472	$ 470,042	$ 177,430	38%
Total shareholders' equity	$ 704,789	$ 644,295	$ 60,494	9%

Significant items affecting comparability of our consolidated balance sheet include:

- Total assets increased primarily due to assets assumed and intangibles recorded of $161.1 million, net of cash, associated with the Oxford acquisition. Excluding Oxford, significant other changes within total assets include an increase in investment in and advances to unconsolidated affiliate of $66.9 million during the year ended December 31, 2013, due to funding of $70.5 million to our investment in MVG, partially offset by our equity losses from MVG. In addition, other assets increased $9.5 million primarily due to the capitalization of $6.3 million in debt issuance costs associated with our Senior Unsecured Notes offering and $2.3 million in loan origination fees associated with the senior secured Credit Facility.

  Partially offsetting these increases were decreases in net other intangible assets of $9.7 million during the year ended December 31, 2013. The decrease in net other intangible assets primarily reflects the amortization of definite lived assets acquired in our acquisitions of Harlow's, Riverwalk and Oxford.

- Significant changes within total liabilities include an increase in long-term debt of $159.5 million, reflecting the issuance of $300 million in long-term debt from our Senior Unsecured Notes offering, partially offset by repayments under our Senior Secured Credit Facility. In addition, dividends payable increased $15.2 million reflecting a change in the timing of our 2013 shareholder dividend payment.

Liquidity and Capital Resources

The following table is a summary of our liquidity and cash flows (in thousands):

	Year Ended December 31,			'13 vs. '12 Change		'12 vs. '11 Change	
Cash Flows from:	2013	2012	2011	$	%	$	%
Operating activities	$ 144,915	$ 144,407	$ 172,995	$ 508	—%	$ (28,588)	(17)%
Investing activities	$ (281,872)	$ (199,988)	$ (26,878)	$ (81,884)	41%	$ (173,110)	U
Financing activities	$ 144,488	$ 65,433	$ (145,693)	$ 79,055	F	$ 211,126	F

- The increase in cash provided by operating activities is due, in part, to the acquisitions of Riverwalk and Oxford, the increased profitability of Kentucky Oaks and Kentucky Derby week and the receipt of HRE Trust Fund proceeds during the year ended December 31, 2013. Partially offsetting these improvements was the loss of Florida hosting revenues at Calder and an overpayment of estimated 2013 federal income taxes. We anticipate that cash flows from operations over the next twelve months will be adequate to fund our business operations and capital expenditures.
- The increase in cash used in investing activities is primarily due to the net increase in acquisition activity of $12.0 million related to the 2013 Oxford acquisition as compared to the 2012 acquisitions of Riverwalk and Bluff. In addition, capital contributions to our joint venture, MVG, increased $50.7 million during the year ended December 31, 2013 as compared to the same period of 2012. Finally, other increases in investing activities include the receipt of $10.4 million in insurance proceeds during the year ended December 31, 2012, related to the Harlow's flood and wind claims and the Churchill Downs hail claim.
- The increase in cash provided by financing activities is primarily due to the issuance of our $300 million Senior Unsecured Notes during the year ended December 31, 2013. In addition, net repayments under our Senior Secured Credit Facility increased $222.7 million during the year ended December 31, 2013, through the repayment of a portion of the senior secured credit facility from the proceeds of the Senior Unsecured Notes.

During 2013, the Company funded $70.5 million in capital contributions to MVG. Since the joint venture commenced during 2012, the Company has funded $90.4 million in capital contributions. The Company anticipates providing funding of $24.0 million to MVG during 2014.

There were no material changes in our commitments to make future payments or in our contractual obligations. As of December 31, 2013, we were in compliance with the debt covenants of our senior secured credit facility and had $425 million of borrowing capacity under our senior secured credit facility.

Free cash flow, which we reconcile to "Net cash provided by operating activities," is cash flows from operations reduced by maintenance-related (replacement) capital expenditures. Maintenance-related capital expenditures are expenditures to replace existing fixed assets with a useful life greater than one year that are obsolete, worn-out or no longer cost effective to repair. We use free cash flow to evaluate our business because, although it is similar to cash flow from operations, we believe it will typically present a more conservative measure of cash flows as maintenance-related capital expenditures are a necessary component of our ongoing operations. Free cash flow is a non-GAAP measure, and our definition may differ from other companies' definitions of this measure.

Free cash flow does not represent the residual cash flow available for discretionary expenditures and does not incorporate the funding of business acquisitions or capital projects that expand existing facilities or create a new facility. This non-GAAP measure should not be considered a substitute for, or superior to, cash flows from operating activities under GAAP.

The following is a summary of additions to property and equipment and a reconciliation of free cash flow to the most comparable GAAP measure, "Net cash provided by operating activities," for 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,			'13 vs. '12 Change		'12 vs. '11 Change	
	2013	2012	2011	$	%	$	%
Maintenance-related capital expenditures	$ 16,879	$ 17,158	$ 14,845	$ (279)	(2)%	$ 2,313	16 %
Capital project expenditures	31,892	24,140	7,822	7,752	32 %	16,318	U
Additions to property and equipment	$ 48,771	$ 41,298	$ 22,667	$ 7,473	18 %	$ 18,631	82 %
Net cash provided by operating activities	$144,915	$144,407	$172,995	$ 508	— %	$(28,588)	(17)%
Maintenance-related capital expenditures	(16,879)	(17,158)	(14,845)	279	(2)%	(2,313)	16 %
Free cash flow	$128,036	$127,249	$158,150	$ 787	1 %	$(30,901)	(20)%

During the year ended December 31, 2013, the increase in capital project expenditures as compared to the same period of 2012 primarily reflects capital expenditures related to the Mansion, Rooftop Garden and Grandstand Terrace projects at Churchill Downs.

During the year ended December 31, 2012, the increase in capital project expenditures as compared to the same period of 2011 primarily reflects capital expenditures related to renovations underway at Harlow's, our corporate office relocation and the launch of Luckity, our newest ADW business. During 2012, we funded capital expenditures of approximately $11.0 million related to Harlow's renovations, which were offset by the receipt of insurance recoveries. The decrease in cash provided by operating activities is primarily due to the prior year recognition of proceeds from the HRE Trust Fund and the receipt of refunds of $10.4 million from filing prior years' amended federal income tax returns during the year ended December 31, 2011.

Credit Facilities and Indebtedness

5.375% Senior Unsecured Notes

On December 16, 2013, the Company completed an offering of $300 million in aggregate principal amount of 5.375% Senior Unsecured Notes that mature on December 15, 2021 (the "Senior Unsecured Notes"). The Senior Unsecured Notes were issued at par, with interest payable on June 15th and December 15th of each year. The Company received net proceeds of $295 million, after deducting underwriting fees, and used the net proceeds from the offering to repay a portion of its outstanding borrowings, and accrued and unpaid interest outstanding under its Third Amended and Restated Credit Agreement ("Senior Secured Credit Facility"). As a result of the issuance, the Company capitalized $6.3 million of debt issuance costs, which is being amortized as interest expense over the remaining term of the Senior Unsecured Note.

The Senior Unsecured Notes were issued in a private offering that was exempt from registration under the Securities Act of 1933, as amended, and are senior unsecured obligations of the Company. The Senior Unsecured Notes are guaranteed by each of the Company's domestic subsidiaries that guarantee its Senior Secured Credit Facility and will rank equally with the Company's existing and future senior obligations. At any time prior to December 15, 2016, the Company may redeem all or part of the Senior Unsecured Notes at par plus the present value (discounted at the treasury rate plus 50 basis points) of scheduled interest payments through December 15, 2016, along with accrued and unpaid interest, if any, at the date of redemption. On or after December 15, 2016, the Company may redeem all or part of the Senior Unsecured Notes at a redemption price of 104.031% which gradually reduces to par by 2019.

Senior Secured Credit Facility

On May 17, 2013, the Company entered into the Third Amended and Restated Credit Agreement (the "Senior Secured Credit Facility") which amended certain provisions of the credit agreement including increasing the maximum aggregate commitment from $375 million to $500 million. The Senior Secured Credit Facility also provides for an accordion feature which, if exercised, could increase the maximum aggregate commitment by up to an additional $225 million and reduce the pricing schedule for outstanding borrowings and commitment fees across all leverage pricing levels. The guarantors under the Senior Secured Credit Facility continue to be a majority of the Company's wholly-owned subsidiaries. The Company incurred loan origination costs of $2.3 million in connection with this amendment, which were capitalized and are being amortized as interest expense over the remaining term of the Senior Secured Credit Facility. The Senior Secured Credit Facility matures on May 17, 2018.

Generally, borrowings made pursuant to the Senior Secured Credit Facility bear interest at a LIBOR-based rate per annum plus an applicable percentage ranging from 1.125% to 3.0% depending on the Company's total leverage ratio. In addition, under the Senior Secured Credit Facility, the Company agreed to pay a commitment fee at rates that range from 0.175% to 0.45% of the available aggregate commitment, depending on the Company's leverage ratio. The weighted average interest rate on outstanding borrowings at December 31, 2013 and 2012 was 1.71% and 1.87%, respectively.

The Senior Secured Credit Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations on the Company and its subsidiaries with respect to indebtedness, restricted payments, liens, investments, mergers and acquisitions, disposition of assets, sale-leaseback transactions and transactions with affiliates. The covenants permit the Company to use proceeds of the credit extended under the agreement for general corporate purposes, restricted payments and acquisition needs. The Senior Secured Credit Facility also contains financial covenants that require the Company (i) to maintain an interest coverage ratio (i.e., consolidated adjusted EBITDA to consolidated interest expense) that is greater than 3.0 to 1.0; (ii) not to permit the total leverage ratio (i.e., total consolidated funded indebtedness to consolidated adjusted EBITDA) to be greater than 4.5 to 1.0, provided that if a certain minimum consolidated adjusted EBITDA is reached then the total leverage ratio will be increased to 5.0 to 1.0 for such periods that the minimum is maintained; and (iii) not to permit the senior secured leverage ratio (i.e. senior secured consolidated funded indebtedness to consolidated adjusted EBITDA) to be greater than 3.5 to 1.0. As of December 31, 2013, the Company was in compliance with all covenants under the Senior Secured Credit Facility, and substantially all of the Company's assets continue to be pledged as collateral under the Senior Secured Credit Facility. At December 31, 2013, the financial ratios under our Senior Secured Credit Facility were as follows:

	Actual	Requirement
Interest Coverage Ratio	30.8 to 1	> 3.0 to 1.0
Total Leverage Ratio	2.0 to 1	< 4.5 to 1.0
Senior Secured Leverage Ratio	0.4 to 1	< 3.5 to 1.0

Contractual Obligations

Our commitments to make future payments as of December 31, 2013, are summarized as follows (in thousands):

	2014	2015-2016	2017-2018	Thereafter	Total
Senior Secured Credit Facility	$ —	$ —	$ 69,191	$ —	$ 69,191
Interest on Senior Secured Credit Facility	1,183	—	—	—	1,183
Senior Unsecured Notes	—	—	—	300,000	300,000
Interest on Senior Unsecured Notes	16,125	32,250	32,250	47,712	128,337
Capital contributions to MVG	24,000	—	—	—	24,000
Operating leases	8,024	11,069	5,873	5,130	30,096
Total	$ 49,332	$ 43,319	$ 107,314	$ 352,842	$ 552,807

(1) Interest includes the estimated contractual payments under our senior secured credit facility assuming no change in the borrowing rate of 1.7%, which was the rate in place as of December 31, 2013.

As of December 31, 2013, we had approximately $0.6 million of unrecognized tax benefits. We anticipate a decrease in our unrecognized tax benefits of approximately $0.1 million during the next twelve months due to the expiration of statutes of limitations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to market risk relates to changes in interest rates. At December 31, 2013, we had $69.2 million outstanding under our senior secured credit facility, which bears interest at LIBOR based variable rates. We are exposed to market risk on variable rate debt due to potential adverse changes in these rates. Assuming the outstanding balance of the debt facilities remain constant, a one-percentage point increase in the LIBOR rate would reduce annual earnings and cash flows from operating activities by $0.4 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Churchill Downs Incorporated

In our opinion, the consolidated financial statements listed in the index appearing under item 15(a)(1) present fairly, in all material respects, the financial position of Churchill Downs Incorporated and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, management has excluded Oxford Casino from its assessment of internal control over financial reporting as of December 31, 2013 because it was acquired by the Company in a purchase business combination during 2013. We have also excluded Oxford Casino from our audit of internal control over financial reporting. Oxford Casino is a wholly-owned subsidiary whose total assets and total revenues represent 12.5% and 4.4% respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2013.

/s/ PricewaterhouseCoopers LLP
Louisville, Kentucky
February 26, 2014

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED BALANCE SHEETS
December 31,
(in thousands)

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 44,708	$ 37,177
Restricted cash	36,074	38,241
Accounts receivable, net of allowance for doubtful accounts of $4,338 in 2013 and $1,885 in 2012	46,572	47,152
Deferred income taxes	8,927	8,227
Income taxes receivable	12,398	2,915
Other current assets	12,036	13,352
Total current assets	160,715	147,064
Property and equipment, net	585,498	542,882
Investment in and advances to unconsolidated affiliate	86,151	19,240
Goodwill	300,616	250,414
Other intangible assets, net	198,149	143,141
Other assets	21,132	11,596
Total assets	$ 1,352,261	$ 1,114,337
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 43,123	$ 47,791
Bank overdraft	973	6,027
Account wagering deposit liabilities	18,679	14,487
Purses payable	18,839	19,084
Accrued expenses	67,328	65,537
Dividends payable	15,186	—
Current maturities of long-term debt	—	209,728
Deferred revenue	49,078	43,916
Total current liabilities	213,206	406,570
Long-term debt, net of current maturities	369,191	—
Other liabilities	17,753	21,030
Deferred revenue	16,706	17,794
Deferred income taxes	30,616	24,648
Total liabilities	647,472	470,042
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 250 shares authorized; no shares issued	—	—
Common stock, no par value; 50,000 shares authorized; 17,948 shares issued at December 31, 2013 and17,448 shares issued at December 31, 2012	295,955	274,709
Retained earnings	408,834	369,586
Total shareholders' equity	704,789	644,295
Total liabilities and shareholders' equity	$ 1,352,261	$ 1,114,337

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the years ended December 31,
(in thousands, except per common share data)

	2013	2012	2011
Net revenues:			
Racing	$ 274,269	$ 302,088	$ 298,920
Gaming	297,473	223,112	212,629
Online	184,541	183,279	165,416
Other	23,042	22,817	19,889
	779,325	731,296	696,854
Operating expenses:			
Racing	233,286	255,405	259,369
Gaming	222,879	163,686	157,875
Online	123,449	123,476	113,243
Other	26,540	25,356	20,828
Selling, general and administrative expenses	83,446	73,829	65,501
Insurance recoveries, net of losses	(375)	(7,006)	(972)
Operating income	90,100	96,550	81,010
Other income (expense):			
Interest income	112	90	468
Interest expense	(6,231)	(4,531)	(8,924)
Equity in losses of unconsolidated investments	(4,142)	(1,701)	(1,113)
Miscellaneous, net	5,667	819	23,643
	(4,594)	(5,323)	14,074
Earnings from continuing operations before provision for income taxes	85,506	91,227	95,084
Income tax provision	(30,473)	(33,075)	(34,289)
Earnings from continuing operations	55,033	58,152	60,795
Discontinued operations, net of income taxes:			
(Loss) gain from operations	(50)	124	(1)
(Loss) gain on sale of assets	(83)	—	3,561
Net earnings and comprehensive income	$ 54,900	$ 58,276	$ 64,355
Net earnings (loss) per common share data:			
Basic			
Earnings from continuing operations	$ 3.13	$ 3.38	$ 3.59
Discontinued operations	(0.01)	0.01	0.21
Net earnings	$ 3.12	$ 3.39	$ 3.80
Diluted			
Earnings from continuing operations	$ 3.07	$ 3.33	$ 3.55
Discontinued operations	(0.01)	0.01	0.21
Net earnings	$ 3.06	$ 3.34	$ 3.76
Weighted average shares outstanding:			
Basic	17,294	17,047	16,638
Diluted	17,938	17,475	17,125

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the years ended December 31, 2013, 2012 and 2011
(in thousands, except per common share data)

	Common Stock		Retained	
	Shares	Amount	Earnings	Total
Balance, December 31, 2010	16,571	$ 236,503	$ 269,711	$ 506,214
Net earnings and comprehensive income			64,355	64,355
Issuance of common stock for convertible note payable	453	16,669		16,669
Issuance of common stock for employee benefit plans	24	725		725
Issuance of common stock for long-term incentive plan	103	1,929		1,929
Tax windfall from share-based compensation		151		151
Repurchase of common stock	(25)	(1,308)		(1,308)
Restricted stock forfeitures	(1)			—
Grant of restricted stock	53			—
Amortization of restricted stock		4,377		4,377
Cash dividends, $0.60 per share			(10,110)	(10,110)
Restricted dividends, $0.60 per share			(125)	(125)
Stock option plan expense		1,153		1,153
Balance, December 31, 2011	17,178	260,199	323,831	584,030
Net earnings and comprehensive income			58,276	58,276
Issuance of common stock for stock option exercises	155	5,663		5,663
Issuance of common stock for employee benefit plans	19	714		714
Issuance of common stock for long-term incentive plan	158	4,207		4,207
Tax windfall from share-based compensation		1,407		1,407
Repurchase of common stock	(84)	(5,094)		(5,094)
Restricted stock forfeitures	(1)			—
Grant of restricted stock	23			—
Amortization of restricted stock		6,377		6,377
Cash dividends, $0.72 per share			(12,351)	(12,351)
Restricted dividends, $0.72 per share			(170)	(170)
Stock option plan expense		1,236		1,236
Balance, December 31, 2012	17,448	274,709	369,586	644,295
Net earnings and comprehensive income			54,900	54,900
Issuance of common stock for stock option exercises	7	330		330
Issuance of common stock for employee benefit plans	17	805		805
Issuance of common stock for long-term incentive plan	174	6,371		6,371
Tax windfall from share-based compensation		2,981		2,981
Repurchase of common stock	(133)	(10,723)		(10,723)
Restricted stock forfeitures	(1)			—
Grant of restricted stock	436			—
Amortization of restricted stock		20,525		20,525
Cash dividends, $0.87 per share			(15,186)	(15,186)
Restricted dividends, $0.87 per share			(466)	(466)
Stock option plan expense		957		957
Balance, December 31, 2013	17,948	$ 295,955	$ 408,834	$ 704,789

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31,
(in thousands)

	2013	2012	2011
Cash flows from operating activities:			
Net earnings and comprehensive income	$ 54,900	$ 58,276	$ 64,355
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	61,750	55,600	55,170
Asset impairment loss	—	25	511
Loss (gain) on sale of business	131	—	(271)
(Gain) loss on asset disposition	(497)	(128)	52
Equity in losses of unconsolidated investments	4,142	1,701	1,113
Unrealized gain on derivative instruments	—	—	(3,096)
Share-based compensation	21,482	7,613	5,531
Deferred tax provision	5,284	9,659	14,097
Other	689	910	2,489
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of business acquisitions and dispositions:			
Restricted cash	6,359	9,178	18,342
Accounts receivable	(495)	(5,396)	(407)
Other current assets	1,372	(3,075)	3,235
Income taxes	(11,023)	764	7,995
Accounts payable	(5,879)	3,459	14,447
Purses payable	(6,594)	(10,148)	7,301
Accrued expenses	4,866	9,923	2,441
Deferred revenue	6,029	8,804	3,633
Deferred riverboat subsidy	—	—	(40,492)
Other assets and liabilities	2,399	(2,758)	16,549
Net cash provided by operating activities	144,915	144,407	172,995
Cash flows from investing activities:			
Additions to property and equipment	(48,771)	(41,298)	(22,667)
Acquisition of businesses, net of cash acquired	(154,872)	(142,915)	—
Acquisition of gaming licenses	(2,650)	(2,250)	(2,250)
Investment in joint venture	(70,500)	(19,850)	—
Purchases of minority investments	(902)	(2,153)	(1,189)
Proceeds from sale of assets	15	833	55
Proceeds from insurance recoveries	—	10,505	183
Change in deposit wagering asset	(4,192)	(2,860)	(1,010)
Net cash used in investing activities	(281,872)	(199,988)	(26,878)
Cash flows from financing activities:			
Borrowings on bank line of credit	740,131	554,248	320,181
Repayments of bank line of credit	(880,667)	(472,083)	(457,736)
Proceeds from bond issuance	300,000	—	—
Change in bank overdraft	(5,053)	555	(188)
Payment of dividends	—	(22,461)	(8,165)
Repurchase of common stock	(10,723)	(5,094)	(1,308)
Common stock issued	1,135	6,377	725
Windfall tax provision from share-based compensation	2,981	1,407	151
Loan origination fees	(2,258)	(67)	(155)
Debt issuance costs	(5,250)	—	—
Change in deposit wagering liability	4,192	2,551	802
Net cash provided by (used in) financing activities	144,488	65,433	(145,693)
Net increase in cash and cash equivalents	7,531	9,852	424
Cash and cash equivalents, beginning of year	37,177	27,325	26,901
Cash and cash equivalents, end of year	$ 44,708	$ 37,177	$ 27,325

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Years ended December 31,
(in thousands)

	2013	2012	2011
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 4,032	$ 2,856	$ 5,521
State tax credits	1,298	—	—
Income taxes	31,324	24,462	24,785
Schedule of non-cash investing and financing activities:			
Issuance of common stock for conversion of convertible note payable	$ —	$ —	$ 19,399
Issuance of common stock in connection with the Company LTIP, the New Company LTIP and other restricted stock plans	30,678	5,459	5,058
Dividends payable	15,186	—	—
Dividends accrued on restricted stock plans	466	170	125
Accrued debt issuance costs	1,000	—	—
Property and equipment additions included in accounts payable and accrued expenses	3,769	5,254	787
Property and equipment reductions included in accounts receivable	—	—	9,870
Assets acquired and liabilities assumed from acquisition of businesses:			
Accounts receivable, net	$ 252	$ 486	$ —
Other current assets	799	688	—
Other non-current assets	—	282	—
Property and equipment, net	45,105	64,935	—
Goodwill	50,202	36,702	—
Other intangible assets	64,693	46,004	—
Accounts payable	(1,063)	(780)	—
Accrued expenses	(5,111)	(5,234)	—
Deferred revenue	(5)	(168)	—

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

NOTE 1—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Churchill Downs Incorporated (the "Company") is a diversified provider of pari-mutuel horseracing, casino gaming, entertainment, and is the country's premier source of online account wagering on horseracing events. The Company offers gaming products through its casinos in Mississippi, its slot and video poker operations in Louisiana, its slot and poker operations in Florida, and its casino in Maine.

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Calder Race Course, Inc. and Tropical Park, Inc. which hold licenses to conduct pari-mutuel wagering and horseracing at Calder Race Course ("Calder"), Arlington International Race Course, LLC ("Arlington"), Churchill Downs Louisiana Horseracing Company, LLC ("CDI Louisiana"), Churchill Downs Louisiana Video Poker Company, LLC ("CD Louisiana Video") and its wholly-owned subsidiary, Video Services, LLC ("VSI"), SW Gaming, LLC ("Harlow's"), Oxford Casino ("Oxford"), Magnolia Hill, LLC ("Riverwalk"), Churchill Downs Technology Initiatives Company ("CDTIC"), the owner and operator of TwinSpires and United Tote Company, Inc. ("United Tote"), Churchill Downs Investment Company ("CDIC"), Bluff Media ("Bluff"), as well as the Company's equity investment in HRTV, LLC ("HRTV") and a 50% joint venture in Miami Valley Gaming & Racing LLC ("MVG"). All significant intercompany balances and transactions have been eliminated in consolidation.

The Consolidated Statements of Comprehensive Income include net revenues and operating expenses associated with the Company's Racing Operations, Gaming, Online Business and Other Investments operating segments and are defined as follows:

<u>Racing:</u> net revenues and corresponding operating expenses associated with commissions earned on wagering at the Company's racetracks, off-track betting facilities ("OTBs") and simulcast fees earned from other wagering sites. In addition, amounts include ancillary revenues and expenses generated by the pari-mutuel facilities including admissions, sponsorships and licensing rights, food and beverage sales and fees for the alternative uses of its facilities.

<u>Gaming:</u> net revenues and corresponding operating expenses generated from slot machines, table games and video poker. In addition, it includes ancillary revenues and expenses generated by food and beverage sales, hotel operations revenue and miscellaneous other revenue.

<u>Online:</u> net revenues and corresponding operating expenses generated by the Company's Advance Deposit Wagering ("ADW") business from wagering through the Internet, telephone or other mobile devices on pari-mutuel events. In addition, it includes the Company's information business that provides data information and processing services to the equine industry.

<u>Other:</u> net revenues and corresponding operating expenses generated by United Tote Company, the Company's provider of pari-mutuel wagering systems and Bluff.

Current Year Reclassifications

During the year ended December 31, 2013, the Company completed the sale of 100% of the assets of Fight! Magazine ("Fight"), a division of Bluff which was acquired by the Company in February 2012. Net revenues, operating expenses and the loss on the sale of Fight for the years ended December 31, 2013 and 2012, have been reclassified to discontinued operations. There was no impact from these reclassifications on net earnings or cash flows.

Summary of Significant Accounting Policies

Cash Equivalents

The Company considers investments with original maturities of three months or less to be cash equivalents. The Company has, from time to time, cash in the bank in excess of federally insured limits. Checks issued but not presented to banks frequently result in overdraft balances for accounting purposes and are classified as a current liability in the Consolidated Balance Sheets.

Restricted Cash

Restricted cash represents amounts due to horsemen for purses, stakes and awards as well as customer deposits collected for advance deposit wagering. In addition, as of December 31, 2013 and 2012, restricted cash included $8.8 million and $12.9 million, respectively, of funds related to the Horse Racing Equity Trust Fund ("HRE Trust Fund") proceeds in Illinois, as further described in Note 22.

Allowance for Doubtful Accounts Receivable

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance is maintained at a level considered appropriate based on historical and other factors that affect collectability. Uncollectible accounts receivable are written off against the allowance for doubtful accounts receivable when management determines that the probability of payment is remote and collection efforts have ceased.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as follows: 10 to 40 years for grandstands and buildings, 2 to 10 years for equipment, 2 to 10 years for furniture and fixtures and 10 to 20 years for tracks and other improvements.

Intangible Assets

The Company determines the initial carrying value of its intangible assets in accordance with purchase accounting based on the anticipated future cash flows relating to the intangible asset. Definite-lived intangible assets are being amortized over their estimated useful lives ranging from one to thirty years using the straight-line method. Definite-lived intangible assets are reviewed for impairment in accordance with the Company's policy for long-lived assets below.

Goodwill is tested for impairment annually as of March 31 or between annual tests if events occur or circumstances indicate there may be impairment. Guidance related to goodwill impairment testing allows an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that the fair value of a reporting unit is less than the carrying amount, then the Company would perform the two step goodwill impairment test. The first step, used to identify potential impairment, is a comparison of the reporting unit's estimated fair value to its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of the impairment, if any. The second step of the goodwill impairment test consists of comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized equal to such excess. The implied fair value of goodwill is determined in the same manner, as when determining the amount of goodwill recognized in a business combination.

The Company considers its slots gaming rights and trademarks as indefinite-lived intangible assets that do not require amortization based on its future expectations to operate its gaming facilities indefinitely, as well as its historical experience in renewing these intangible assets at minimal cost with various state gaming commissions. Rather, these intangible assets are tested annually as of March 31, or more frequently if indicators of impairment exist. In 2013, in connection with its annual impairment testing, the Company adopted Financial Accounting Standards Board ("FASB") ASU No. 2012-02, *Intangibles-Goodwill and Other: Testing Indefinite-Lived Assets for Impairment* which allows an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying amount. If the carrying amount of the slots gaming rights and trademark intangible assets exceed their fair value, an impairment loss is recognized. The Company completed the required annual impairment tests of goodwill and indefinite-lived intangible assets, and no adjustment to the carrying values of goodwill or indefinite-lived intangible assets was required.

Long-lived Assets-Impairments

In the event that facts and circumstances indicate that the carrying amount of tangible assets and other long-lived assets or groups of assets may be impaired, an evaluation of recoverability is performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the assets is compared to the assets' carrying amount to determine if an impairment loss should be recorded. The impairment loss is based on the excess, if any, of the carrying value over the fair value of the assets.

Fair Value of Assets and Liabilities

The Company adheres to a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities that are carried at fair value are classified and disclosed in one of the following three categories: Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities; Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and Level 3: Unobservable inputs for the asset or liability. The Company endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

Internal Use Software

The Company capitalized internal use software primarily related to its Online Business of approximately $7.4 million, $5.2 million and $3.2 million during the years ended December 31, 2013, 2012 and 2011, respectively. The estimated useful life of costs capitalized is generally three years. During the years ended December 31, 2013, 2012 and 2011, the amortization of capitalized costs totaled approximately $5.1 million, $4.2 million and $3.5 million, respectively. Capitalized internal use software is included in property and equipment, net. The Company records internal use software in accordance with current accounting guidance governing computer software developed or obtained for internal use.

Loan Origination Costs

During the years ended December 31, 2013, 2012 and 2011, the Company incurred $2.3 million, $0.1 million and $0.2 million, respectively, in loan origination costs associated with the second and third amended and restated credit facility, which were capitalized and are being amortized as interest expense over the remaining term of the credit facility.

Debt Issuance Costs

Debt issuance costs are deferred and amortized to interest expense using the effective interest method over the contractual term of the underlying indebtedness. During the year ended December 31, 2013, the Company incurred $6.3 million in debt issuance costs associated with the issuance of the Senior Unsecured Notes.

Investment in and Advances to Unconsolidated Affiliates

The Company has investments in unconsolidated affiliates accounted for under the equity method. Under the equity method, carrying value is adjusted for the Company's share of the investees' earnings and losses, as well as capital contributions to and distributions from these companies. Distributions in excess of equity method earnings are recognized as a return of investment and recorded as investing cash inflows in the consolidated statements of cash flows. The Company classified operating income and losses as well as gains and impairments related to its investments in unconsolidated affiliates as a component of operating income or loss, as the Company's investment in such unconsolidated affiliates are an extension of the Company's core business operations.

The Company evaluates its investment in unconsolidated affiliates for impairment whenever events or changes in circumstances indicate that the carrying value of its investment may have experienced an "other-than-temporary" decline in value. If such conditions exist, the Company compares the estimated fair value of the investment to its carrying value to determine if an impairment is indicated and determines whether the impairment is "other-than-temporary" based on its assessment of all relevant factors, including consideration of the Company's intent and ability to retain its investment. The Company estimates fair value using a discounted cash flow analysis based on estimated future results of the investee.

Revenue Recognition

Pari-mutuel revenues are recognized upon occurrence of the live race that is presented for wagering and after that live race is made official by the respective state's racing regulatory body. Gaming revenues represent net gaming wins, which is the difference between gaming wins and losses. Other operating revenues such as admissions, programs and concession revenues are recognized once delivery of the product or services has occurred.

Approximately 42% of the Company's revenues for the year ended December 31, 2013, are generated by pari-mutuel wagering on live and simulcast racing content through OTBs and ADW providers. Live racing handle includes patron wagers made on live races at the Company's racetracks and also wagers made on imported simulcast signals by patrons at the Company's racetracks during live meets. Import simulcasting handle includes wagers on imported signals at the Company's racetracks when the respective tracks are not conducting live racing meets, at the Company's OTBs and through the Company's ADW providers throughout the year. Export handle includes all patron wagers made on live racing signals sent to other tracks, OTBs and ADW providers. Advance deposit wagering consists of patron wagers through an advance deposit account.

The Company retains as revenue a predetermined percentage or commission on the total amount wagered, and the balance is distributed to the winning patrons. The gross percentages earned approximated 10% of handle for our Racing Operations segment and 19% of handle for our Online Business segment. The Company is subject to pari-mutuel and gaming taxes based on pari-mutuel and gaming revenues in the jurisdictions in which it operates. These taxes are recorded as an operating expense in the Consolidated Statements of Comprehensive Income.

Customer Loyalty Programs

The Company's customer loyalty programs offer incentives to customers who wager at the Company's racetracks, through its advance deposit wagering platform, TwinSpires.com, or at its gaming facilities. The TSC Elite program, which was introduced during the year ended December 31, 2012, to replace the previous program, TwinSpires Club, is for pari-mutuel wagering at the Company's racetracks or through TwinSpires.com. The Player's Club is offered at the Company's gaming facilities in Louisiana, Florida, Maine and Mississippi. Under the programs, customers are able to accumulate points over time that they may redeem for cash, free play, merchandise or food and beverage items at their discretion under the terms of the programs. As a result of the ability of the customer to accumulate points, the Company accrues the cost of points, after consideration of estimated forfeitures, as they are earned. For the TSC Elite program, the estimated value of the cost to redeem points is recorded as the points are earned. To arrive at the estimated cost associated with points, estimates and assumptions are made regarding incremental costs of the benefits, rates and the mix of goods and services for which points will be redeemed. For the Player's Cub program, the retail value of the points-based cash awards or complimentary goods and services is netted against revenue as a promotional allowance. As of December 31, 2013 and 2012, the outstanding reward point liability was $2.1 million, for each respective period.

Account Wagering Deposit Liabilities

Account wagering deposit liabilities consist of deposits received from TwinSpires.com and Velocity customers, to be used to fund wagering through the Online Business players' accounts. Account wagering deposit liability balances are also classified as restricted cash within the Company's Consolidated Balance Sheets.

Promotional Allowances

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

During the years ended December 31, 2013, 2012 and 2011, promotional allowances of $33.0 million, $21.5 million and $17.1 million, respectively, were included as a reduction to net revenues. During those periods, Online promotional allowances were $12.3 million, $9.3 million and $6.5 million, Gaming promotional allowances were $19.8 million, $11.2 million and $8.7 million, and Racing promotional allowances were $0.9 million, $1.0 million and $2.0 million, respectively. The estimated cost of providing promotional allowances is included in operating expenses for the years ended December 31, 2013, 2012 and 2011 and totaled $9.5 million, $5.7 million and $4.6 million, respectively.

Deferred Revenue

Deferred revenue includes advance sales related to the Kentucky Derby and Kentucky Oaks races in Kentucky and other advance billings on racing events. Revenues from these advance billings are recognized when the related event occurs. Deferred revenue also includes advance sales of Personal Seat Licenses ("PSLs") and luxury suites. PSLs represent the ownership of a specific seat for the Kentucky Derby, Kentucky Oaks and Breeders' Cup races at Churchill Downs and have a contractual life of either one, two, three, five or thirty years.

Revenue from PSLs is recognized when the Kentucky Derby, Kentucky Oaks and Breeders' Cup races occur on a ratable basis over the term of the contract. Luxury suites are sold for specific racing events as well as for a predetermined contractual term. Revenue related to the sale of luxury suites is recognized as they are utilized when the related event occurs.

Pari-mutuel and Gaming Taxes

The Company recognizes pari-mutuel and gaming tax expense based on the statutorily required percentage of revenue that is required to be paid to state and local jurisdictions in the states in which wagering occurs. Individual states and local jurisdictions set pari-mutuel tax rates which range from 0.5% to 10.0% of the total handle wagered by patrons. Gaming tax rates range from 1.5% to 46% of net gaming revenue.

Purse Expense

The Company recognizes purse expense based on the statutorily required percentage of revenue that is required to be paid out in the form of purses to the qualifying finishers of horseraces run at the Company's racetracks in the period in which wagering occurs. The Company incurs a liability for all unpaid purses to be paid out. The Company may pay out purses in excess of statutorily required amounts resulting in purse overpayments, which are expensed as incurred. Recoveries of purse overpayments are recognized in the period they are realized.

Income Taxes

In accordance with the liability method of accounting for income taxes, the Company recognizes the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in the consolidated financial statements or tax returns.

Adjustments to deferred taxes are determined based upon the changes in differences between the book basis and tax basis of assets and liabilities, measured by enacted tax rates the Company estimates will be applicable when these differences are expected to reverse. Changes in current tax laws, enacted tax rates or the estimated level of taxable income or non-deductible expenses could change the valuation of deferred tax assets and liabilities and affect the overall effective tax rate and tax provision.

When tax returns are filed, it is highly certain that some positions taken will be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that will be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Uncashed Winning Tickets

The Company's policy for uncashed winning pari-mutuel tickets follows the requirements as set forth by each state's pari-mutuel wagering laws. The Company will either remit uncashed pari-mutuel ticket winnings to the state according to the state's escheat or pari-mutuel laws or will maintain the liability during the required holding period according to state law at which time the Company will recognize it as income.

Insurance Recoveries

In connection with losses incurred from natural disasters, insurance proceeds are collected on existing business interruption and property and casualty insurance policies. When losses are sustained in one accounting period and the amounts to be recovered are collected in a subsequent accounting period, management uses estimates and judgment to determine the amounts that are probable of recovery. Estimated losses, net of anticipated insurance recoveries, are recognized in the period the natural disaster occurs and the amount of the loss is determinable. To the extent that insurance proceeds received are less than the carrying value of the assets impaired, the proceeds are reported in the statement of cash flows as an investing activity. Insurance recoveries in excess of estimated losses are recognized when realizable and are reported in net earnings in the statement of cash flows as an operating activity.

Workers' Compensation and General Liability Self-Insurance

The Company is substantially self-insured for losses related to workers' compensation and general liability claims with stop-loss insurance for both coverages. Losses are accrued based upon the Company's undiscounted estimates of the aggregate liability for claims incurred based on historical experience and certain actuarial assumptions. Expected recoveries from third party insurance companies are also estimated and accrued.

Advertising

The Company expenses the costs of general advertising and associated promotional expenditures at the time the costs are incurred. During the years ended December 31, 2013, 2012 and 2011, the Company incurred advertising expenses of approximately $9.5 million, $6.9 million and $6.8 million, respectively.

Share-Based Compensation

All share-based payments to employees, including grants of employee stock options and restricted stock, are recognized as compensation expense over the service period based on the fair value on the date of grant.

Computation of Net Earnings per Common Share

Net earnings per common share is presented for both basic earnings per common share ("Basic EPS") and diluted earnings per common share ("Diluted EPS"). Earnings attributable to securities that are deemed to be participating securities are excluded from the calculation of Basic EPS using the two-class method. The Company has determined that employee restricted stock grants, including awards granted under its long-term incentive plans, are participating securities. Basic EPS is based upon the weighted average number of common shares outstanding during the period, excluding unvested restricted stock and stock options held by employees. Diluted EPS is based upon the weighted average number of common and potential common shares outstanding during the period. Potential common shares result from the assumed exercise of outstanding stock options as well as unvested restricted stock, the proceeds of which are then assumed to have been used to repurchase outstanding common stock using the treasury stock method. For periods that the Company reports a net loss, all potential common shares are considered anti-dilutive and are excluded from calculations of Diluted EPS. For periods when the Company reports net earnings, potential common shares with exercise prices in excess of the Company's average common stock fair value for the related period are considered anti-dilutive and are excluded from calculations of Diluted EPS. See Note 19 for further details.

Use of Estimates and Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates. The Company's most significant estimates relate to the valuation of property and equipment, income tax liabilities, goodwill and other intangible assets, which may be significantly affected by changes in the regulatory environment in which the Company operates, and to the aggregate costs for self-insured liability claims.

Comprehensive Income

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

Reclassifications

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

Recent Accounting Pronouncements

As noted in Intangible Assets above, the Company adopted ASU No. 2012-02, Intangibles-Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 simplifies indefinite-lived intangible asset impairment testing by adding a qualitative review step to assess whether a quantitative impairment analysis is necessary. Under the amended rule, a testing methodology similar to that which is performed for goodwill impairment testing is acceptable for assessing a company's indefinite-lived intangible assets. The new standard became effective for indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012.

NOTE 2—ACQUISITIONS AND NEW VENTURES

Oxford Casino Acquisition

On July 17, 2013, the Company completed its acquisition of Oxford Casino ("Oxford") in Oxford, Maine for cash consideration of approximately $168.6 million. The transaction included the acquisition of a 25,000-square-foot casino and various dining facilities. The acquisition continued the Company's diversification and growth strategies to invest in assets with rates of returns attractive to the Company's shareholders. The Company financed the acquisition with borrowings under its Senior Secured Credit Facility.

During the period from July 17, 2013, through December 31, 2013, Oxford contributed revenues of $34.4 million and earnings from continuing operations before provision for income taxes of $6.1 million. In accordance with accounting standards, the Company completed the purchase price allocation during the year ended December 31, 2013. The following table summarizes (in thousands) the preliminary fair values of the assets acquired and liabilities assumed, net of cash acquired of $13.7 million, at the date of the acquisition.

		Total
Accounts receivable	$	252
Prepaid expenses		675
Inventory		124
Property and equipment		45,105
Goodwill		50,202
Other intangible assets		64,693
Total assets acquired		161,051
Accounts payable		1,063
Accrued expenses		5,111
Other liabilities		5
Total liabilities acquired		6,179
Purchase price, net of cash acquired	$	154,872

The preliminary fair value of other intangible assets consists of the following (in thousands):

		Total
Slot gaming rights	$	58,500
Customer relationships		1,700
Tradename		2,400
Other intangibles		2,093
Total intangible assets	$	64,693

Depreciation of property and equipment acquired is calculated using the straight-line method over the estimated remaining useful lives of the related assets as follows: 2 to 5 years for computer hardware and software, 2 to 9 years for equipment, 6 years for furniture and fixtures, 40 years for buildings and 14 years for building improvements. Amortization of definite-lived intangible assets acquired is calculated using the straight-line method over the estimated useful life of the related intangible asset. Intangible assets include customer relationships valued at $1.7 million with a life of 6 years. Other intangibles include table game fees paid to the State of Maine which is amortized over the 20-year contract period. Slot gaming rights and tradename are determined to have indefinite lives and are not being amortized.

Goodwill of $50.2 million was recognized given the expected contribution of the Oxford acquisition to the Company's overall business strategy. The entire balance of goodwill has been allocated to the Gaming business segment. The Company expects to deduct goodwill for tax purposes.

Riverwalk Casino Hotel Acquisition

On October 23, 2012, the Company completed its acquisition of Riverwalk Casino Hotel ("Riverwalk") in Vicksburg, Mississippi for cash consideration of approximately $145.6 million. The transaction includes the acquisition of a 25,000-square-foot casino, an 80-room hotel, a 5,600-square-foot event center and dining facilities on approximately 22 acres of land. The acquisition continues the Company's diversification and growth strategies to invest in assets with an expected yield on investment to enhance shareholder value. The Company financed the acquisition with borrowings under its Senior Secured Credit Facility.

During the years ended December 31, 2013 and 2012, Riverwalk recognized revenues of $53.6 million and $10.3 million, respectively, and earnings from continuing operations of $9.8 million and $2.0 million, respectively, subsequent to its acquisition by the Company. In accordance with accounting standards, the company completed the purchase price allocation during the year ended December 31, 2013. The following table summarizes the fair values of the assets acquired and liabilities assumed, net of cash acquired of $9.4 million, at the date of the acquisition.

	Total
Accounts receivable	$ 228
Prepaid expenses	589
Inventory	99
Other assets	282
Property and equipment	64,908
Goodwill	32,768
Other intangible assets	43,100
Total assets acquired	141,974
Accounts payable	552
Accrued expenses	5,234
Other liabilities	1
Total liabilities acquired	5,787
Purchase price, net of cash acquired	$ 136,187

The fair value of other intangible assets consists of the following (in thousands):

	Total
Slot gaming rights	$ 25,300
Customer relationships	10,300
Tradename	7,500
Total intangible assets	$ 43,100

Depreciation of property and equipment acquired is calculated using the straight-line method over the estimated remaining useful lives of the related assets as follows: 3 to 5 years for computer hardware and software, 4 to 6 years for equipment, 4 to 6 years for furniture and fixtures, 40 years for buildings and 8 to 22 years for building improvements. Amortization of definite-lived intangible assets acquired is calculated using the straight-line method over the estimated useful life of the related intangible asset. Intangible assets include customer relationships valued at $10.3 million with a life of 6 years. Slot gaming rights and tradename are determined to have indefinite lives and are not being amortized.

Goodwill of $32.8 million was recognized given the expected contribution of the Riverwalk acquisition to the Company's overall business strategy. The entire balance of goodwill has been allocated to the Gaming business segment. The Company expects to deduct goodwill for tax purposes.

Miami Valley Gaming & Racing Joint Venture

During March 2012, the Company entered into a 50% joint venture with Delaware North Companies Gaming & Entertainment Inc. (“DNC”) to develop a new harness racetrack and video lottery terminal (“VLT”) gaming facility in Lebanon, Ohio.

Through the joint venture agreement, the Company and DNC formed a new company, MVG, which will manage both the Company’s and DNC’s interests in the development and operation of the racetrack and VLT gaming facility. On December 21, 2012, MVG completed the purchase of the harness racing licenses and certain assets held by Lebanon Trotting Club Inc. and Miami Valley Trotting Inc. (the "MVG Sellers") for total consideration of $60.0 million, of which $10.0 million was funded at closing with the remainder to be funded through a $50.0 million note payable over a six year term effective upon the commencement of gaming operations. In addition, there is a potential contingent consideration payment of $10.0 million based on the financial performance of the facility during the seven year period after gaming operations commence.

Construction began in December 2012 on the new gaming and racing facility in Lebanon, Ohio on a 120-acre site. The new facility opened December 12, 2013, and includes a 5/8-mile harness racing track and a 186,000-square-foot gaming facility, featuring 1,600 VLTs, which the joint venture may increase to 1,800 VLTs, dependent on customer demand. MVG will invest approximately $212.0 million in the new facility, including the $50.0 million license fee payable to the Ohio Lottery Commission. During the years ended December 31, 2013 and 2012, the Company funded $70.5 million and $19.9 million in initial capital contributions to the joint venture, respectively. The Company anticipates providing funding of $24.0 million to MVG during 2014.

Bluff Media Acquisition

During February 2012, the Company completed the acquisition of the assets of Bluff, a multimedia poker content brand and publishing company. Bluff's assets include the poker periodical, BLUFF Magazine; BLUFF Magazine's online counterpart, BluffMagazine.com; ThePokerDB, a comprehensive online database and resource that tracks and ranks the performance of poker players and tournaments; and various other news and content forums. In addition to the Company's intention to further expand and build upon Bluff's current content and business model, the Company believes this acquisition potentially provides it with new business avenues to pursue in the event there is a liberalization of state or federal laws with respect to Internet poker in the United States.

The Company completed its acquisition of Bluff for cash consideration of $6.7 million and contingent consideration of $2.5 million based on the probability of the enactment of federal or state enabling legislation which permits Internet poker gaming during the five year period after acquisition. The contingent consideration was estimated at $2.3 million. Any changes in the fair value of contingent consideration subsequent to the acquisition date will be recognized in earnings in the period the estimated fair value changes. Since the transaction did not have a material impact on the Company's consolidated financial statements, additional disclosure was not deemed necessary. See Note 17 for further discussion of the fair value measurement of the contingent consideration.

Pro Forma (unaudited)

The following table illustrates the effect on net revenues, earnings from continuing operations and earnings from continuing operations per common share as if the Company had acquired Riverwalk and Oxford as of the beginning of 2011 and 2012, respectively. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had the acquisitions of Riverwalk and Oxford been consummated at the beginning of 2011 and 2012, respectively.

	Year Ended December 31,	
	2013	2012
Net revenues	$ 820,297	$ 815,605
Earnings from continuing operations	$ 59,002	$ 62,626
Earnings from continuing operations per common share		
Basic:		
Earnings from continuing operations	$ 3.36	$ 3.64
Diluted:		
Earnings from continuing operations	$ 3.29	$ 3.58
Shares used in computing earnings from continuing operations per common share:		
Basic	17,294	17,047
Diluted	17,938	17,475

Pro forma results exclude the effect of the acquisition of Bluff, which did not have a material impact on the Company's consolidated financial statements.

NOTE 3—DISCONTINUED OPERATIONS

Sale of Fight! Magazine

On December 16, 2013, the Company completed the sale of 100% of the assets of Fight! Magazine ("Fight") for an immaterial cash consideration. Fight is a division of Bluff which was acquired by the Company in February 2012. Net revenues, operating expenses and the loss on sale of Fight for the years ended December 31, 2013 and 2012, have been reclassified to discontinued operations.

Hoosier Park Consideration

In accordance with the Company's sale of its ownership interest in Hoosier Park to Centaur Racing, LLC ("Centaur") during 2007, the Company received a promissory note (the "Note") in the amount of $4.0 million plus interest. The Partnership Interest Purchase Agreement documenting such sale to Centaur also included a contingent consideration provision whereby the Company was entitled to payments of up to $15 million on the date which is 18 months after the date that slot machines are operational at Hoosier Park. During June 2008, Hoosier Park commenced its slot operations, fulfilling the terms of the contingency provision. However, due to uncertainties regarding collectability, the Company did not recognize the contingent consideration at the date of sale.

On October 1, 2011, the Company received $5.1 million in repayment of the amount owed to the Company pursuant to the Note. In addition, the Company also received $3.4 million as the final settlement of the contingent consideration provision of the Partnership Interest Purchase Agreement, which was recognized as a gain in discontinued operations during the year ended December 31, 2011.

Hollywood Park Racetrack

The Company recognized operating expenses of $0.1 million during the year ended December 31, 2013, from adjustments related to workers' compensation reserves retained by the Company subsequent to its sale of Hollywood Park Racetrack during 2005 which have been reclassified to discontinued operations.

Financial Information

Fight, Hoosier Park and Hollywood Park have been accounted for as discontinued operations. Accordingly, the results of operations of the sold businesses for all periods presented and the (losses) gains on sold businesses have been classified as discontinued operations, net of income taxes, in the Consolidated Statements of Comprehensive Income. Set forth below is a summary of the results of operations of discontinued businesses for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year ended December 31,		
	2013	**2012**	**2011**
Net revenues	$ 632	$ 1,087	$ —
Operating expenses	857	885	12
Selling, general and administrative expenses	—	—	(11)
Operating (loss) gain	(225)	202	(1)
Other income (expense)	145	(2)	—
(Loss) earnings from operations before income taxes	(80)	200	(1)
Income tax benefit (provision)	30	(76)	—
(Loss) gain from operations	(50)	124	(1)
(Loss) gain on sale of assets, net of income taxes	(83)	—	3,561
Net (loss) gain	$ (133)	$ 124	$ 3,560

NOTE 4—NATURAL DISASTERS

Kentucky Hailstorm

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

Mississippi River Flooding

As a result of the Mississippi River flooding during 2011, the Company temporarily ceased operations at Harlow's Casino Resort & Spa ("Harlow's") on May 6, 2011, and the Board of Mississippi Levee Commissioners ordered the closure of the Mainline Mississippi River Levee on May 7, 2011. On May 12, 2011, the property sustained damage to its 2,600-seat entertainment center and a portion of its dining facilities. On June 1, 2011, Harlow's resumed casino operations with temporary dining facilities. During December 2012 and January 2013, the Company completed the renovation and improvement projects, which included a new buffet area, steakhouse, business center, spa facility, fitness center, pool and a multi-purpose event center.

The Company carries flood, property and casualty insurance as well as business interruption insurance subject to a $1.3 million deductible for damages. As of December 31, 2012, the Company recorded a reduction of property and equipment of $8.5 million and incurred $2.0 million in repair expenditures. During the year ended December 31, 2011, the Company received $3.5 million from its insurance carriers in partial settlement of its claim. This amount has been included as insurance recoveries, summarized below, for the year ended December 31, 2012. In addition, the Company finalized its claim with its insurance carriers and received $12.0 million during the year ended December 31, 2012. The Company recognized insurance recoveries, net of losses, of $5.0 million during the year ended December 31, 2012. The insurance claims for this event have been finalized with the Company's insurance carriers, and it does not expect to receive additional funds or recognize additional income from the claim.

Mississippi Wind Damage

On February 24, 2011, severe storms caused damage to portions of Mississippi, including Greenville, Mississippi, the location of Harlow's. The Harlow's property sustained damage to a portion of the hotel, including its roof, furniture and fixtures in approximately 61 hotel rooms and fixtures in other areas of the hotel. The hotel was closed to customers for renovations following the storm damage and reopened during June 2011. The Company carries property and casualty insurance as well as business interruption insurance subject to a $0.1 million deductible for damages. As of December 31, 2012, the Company recorded a reduction of property and equipment of $1.4 million and incurred $0.4 million in repair expenditures. The Company filed a preliminary claim with its insurance carriers for $1.0 million in damages, which it received during the second quarter of 2011. The Company received an additional $3.4 million from its insurance carriers during the year ended December 31, 2012. The Company recognized insurance recoveries, net of losses, of $1.5 million during the year ended December 31, 2012. The insurance claims for this event have been finalized with the Company's insurance carriers, and it does not expect to receive additional funds or recognize additional income from the claim.

Financial Information

The casualty losses and related insurance proceeds have been included as components of operating income in the Company's Consolidated Statements of Comprehensive Income. Set forth below is a summary of the impact of the natural disasters on the results of operations of the Company for the years ended December 31, 2013, 2012 and 2011, respectively, (in thousands):

	Year Ended December 31, 2013		
	Casualty Losses	Insurance Recoveries	Insurance Recoveries, Net of Losses
Racing	$ —	$ (375)	$ (375)
Total	$ —	$ (375)	$ (375)

	Year Ended December 31, 2012		
	Casualty Losses	Insurance Recoveries	Insurance Recoveries, Net of Losses
Gaming	$ 12,331	$ (18,856)	$ (6,525)
Racing	$ 644	$ (1,125)	$ (481)
Total	$ 12,975	$ (19,981)	$ (7,006)

	Year Ended December 31, 2011		
	Casualty Losses	Insurance Recoveries	Insurance Recoveries, Net of Losses
Gaming	$ 603	$ (1,000)	$ (397)
Racing	$ 425	$ (1,000)	$ (575)
Total	$ 1,028	$ (2,000)	$ (972)

NOTE 5—ACCOUNTS RECEIVABLE

The Company's accounts receivable at December 31, 2013 and 2012 is comprised of the following (in thousands):

	2013	2012
Simulcast and ADW receivables	$ 19,768	$ 18,210
Trade receivables	16,129	19,294
PSL and hospitality receivables	9,410	8,335
Other receivables	5,603	3,198
	50,910	49,037
Allowance for doubtful accounts	(4,338)	(1,885)
Total	$ 46,572	$ 47,152

During the years ended December 31, 2013, 2012 and 2011, the Company recognized $0.5 million, $0.9 million and $0.9 million, respectively, of bad debt expense in its Online Business segment associated with customer wagering on TwinSpires.com. In addition, during the year ended December 31, 2013, the Company recognized $2.5 million of bad debt expense associated with the collectibility of a third-party deposit related to an Internet gaming license.

NOTE 6—PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following (in thousands):

	2013	2012
Land	$ 118,165	$ 115,887
Grandstands and buildings	435,125	413,896
Equipment	208,966	180,452
Furniture and fixtures	47,718	45,810
Tracks and other improvements	121,085	92,197
Construction in progress	15,214	7,793
	946,273	856,035
Accumulated depreciation	(360,775)	(313,153)
Total	$ 585,498	$ 542,882

Depreciation expense was approximately $49.6 million, $44.4 million and $43.3 million for the years ended December 31, 2013, 2012 and 2011, respectively, and is classified in operating expenses in the Consolidated Statements of Comprehensive Income.

During the year ended December 31, 2012, the Company began an assessment of potential alternative uses to its Trackside training facility at Churchill Downs. As such, the Company reviewed the useful lives of assets at this facility and commenced accelerated depreciation on certain of its long-term assets, resulting in additional depreciation expense of $1.5 million and $0.9 million during the years ended December 31, 2013 and 2012, respectively, related to this facility. The Trackside assets were fully depreciated as of December 31, 2013.

NOTE 7—INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED AFFILIATE

Investment in and advances to unconsolidated affiliate includes the Company's 50% joint venture with DNC to develop MVG, a new harness race track and VLT gaming facility in Lebanon, Ohio, as more fully described in Note 2-Acquisitions and New Ventures.

Since both DNC and the Company have participating rights over MVG, and both must consent to MVG's operating, investing and financing decisions, the Company accounts for MVG using the equity method.

Summarized financial information for MVG at December 31, 2013 and 2012 and for the two years ended December, 31, 2013 and 2012 is comprised of the following (in thousands):

	2013	2012
Assets		
Current assets	$ 18,002	$ 1,982
Property and equipment, net	151,434	3,662
Other assets, net	80,665	74,823
Total assets	$ 250,101	$ 80,467
Liabilities and Members' Equity		
Current liabilities	$ 46,966	$ 1,986
Long-term debt	40,758	50,000
Other liabilities	75	—
Members' equity	162,302	28,481
Total liabilities and members' equity	$ 250,101	$ 80,467

The joint venture's long-term debt consists of a $50 million secured note payable from MVG to the MVG Sellers. At December 31, 2013, the decrease in long-term debt from the balance at December 31, 2012 reflects an adjustment made to reflect the fair value of the long-term debt.

	Years Ended December 31,	
	2013	2012
Gaming revenue	$ 6,033	$ —
Non-gaming revenue	5,919	109
Net revenues	11,952	109
Operating and SG&A expenses	10,605	242
Depreciation & amortization expenses	945	7
Pre-opening expenses	7,240	1,079
Operating loss	(6,838)	(1,219)
Interest and other expenses, net	(340)	—
Net loss	$ (7,178)	$ (1,219)

The Company's share of MVG's results have been included in our accompanying condensed consolidated financial statements for the years ended December 31, 2013 and 2012 as follows (in thousands):

	Years Ended December 31,	
	2013	2012
Equity in losses of unconsolidated investments	$ (3,589)	$ (610)

NOTE 8—GOODWILL

Goodwill of the Company at December 31, 2013 and 2012 is comprised of the following (in thousands):

	Racing Operations	Gaming	Online Business	Other Investments	Total
Balance as of December 31, 2011	$ 50,400	$ 34,689	$ 127,364	$ 1,259	$ 213,712
Reclassifications	1,259	—	—	(1,259)	—
Additions	—	32,768	—	3,934	36,702
Balance as of December 31, 2012	51,659	67,457	127,364	3,934	250,414
Additions	—	50,202	—	—	50,202
Balance as of December 31, 2013	$ 51,659	$ 117,659	$ 127,364	$ 3,934	$ 300,616

During the year ended December 31, 2013, the Company established goodwill of $50.2 million related to the acquisition of Oxford on July 17, 2013.

During the year ended December 31, 2012, the Company reclassified goodwill between Other Investments and Racing Operations related to CDSP, one of its other investments, which was merged into Racing Operations during 2012. In addition, the Company established goodwill of $32.8 million and $3.9 million related to the Riverwalk and Bluff acquisitions, respectively.

The Company performed its annual goodwill impairment analysis for the year ended December 31, 2013 in accordance with ASU No. 2011-08, *Intangibles-Goodwill and Other: Testing Goodwill for Impairment.* This analysis included an assessment of qualitative factors to determine whether it is more likely than not that the fair value of the reporting units is less than their carrying amounts. The impairment analysis included an assessment of certain qualitative factors including but not limited to macroeconomic, industry and market conditions; cost factors that have a negative effect on earnings; overall financial performance; the movement of the Company's share price; and other relevant entity and reporting unit specific events. This assessment included the determination of the likely effect of each factor on the fair value of each reporting unit. Although the Company believes the factors considered in the impairment analysis are reasonable, significant changes in any of the assumptions could produce a significantly different result. Based on the annual goodwill impairment analysis for the years ended December 31, 2013 and 2012, the Company concluded that goodwill had not been impaired.

NOTE 9—OTHER INTANGIBLE ASSETS

The Company's other intangible assets are comprised of the following (in thousands):

	December 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:						
Favorable contracts	$ 11,000	$ (4,260)	$ 6,740	$ 11,000	$ (3,613)	$ 7,387
Customer relationships	56,540	(30,464)	26,076	57,900	(24,594)	33,306
Slots gaming license	2,250	(1,125)	1,125	2,250	(1,125)	1,125
Table games license	2,493	(50)	2,443	—	—	—
Other	3,719	(297)	3,422	4,079	(267)	3,812
	$ 76,002	$ (36,196)	39,806	$ 75,229	$ (29,599)	45,630
Indefinite-lived intangible assets:						
Slots gaming rights			128,890			70,390
Trademarks			25,729			23,397
Illinois Horseracing Equity Trust			3,307			3,307
Other			417			417
Total			$ 198,149			$ 143,141

Amortization expense for definite-lived intangible assets was approximately $12.2 million, $11.2 million and $11.9 million for the years ended December 31, 2013, 2012 and 2011, respectively, and is classified in operating expenses. The Company submitted payments of $2.3 million for each of the years ended December 31, 2013 and 2012, respectively, for annual license fees for Calder Casino. Payments are being amortized to expense over the annual license period.

Indefinite-lived intangible assets consist primarily of state gaming licenses in Maine, Mississippi and Florida, rights to participate in the Horse Racing Equity Fund and trademarks.

During the year ended December 31, 2013, the Company established definite-lived intangible assets of $3.8 million and indefinite-lived intangible assets of $60.9 million related to the Oxford acquisition. During November 2013, the Company paid $0.4 million to the State of Maine for table game fees that are being amortized over a 20-year contract period. During the year ended December 31, 2013, the Company reduced customer relationships and accumulated amortization by $2.8 million and other definite-lived intangibles and accumulated amortization by $0.4 million, related to the Harlow's acquisition, as these amounts were fully amortized. Finally, the Company expensed $0.2 million of definite-lived and indefinite lived assets related to the disposal of Fight! Magazine.

During the year ended December 31, 2012, the Company established other definite-lived intangible assets of $10.3 million and indefinite-lived intangible assets of $32.8 million related to the Riverwalk acquisition. In addition, the Company established other definite-lived intangible assets of $0.3 million and indefinite-lived intangible assets of $4.8 million related to the Bluff acquisition.

Indefinite-lived intangible assets are tested for impairment on an annual basis as of March 31. In March 2013, the Company adopted ASU No. 2012-02, Intangibles-Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 simplifies indefinite-lived intangible asset impairment testing by adding a qualitative review step to assess whether a quantitative impairment analysis is necessary. Under the amended guidance, a testing methodology similar to that which is performed for goodwill impairment testing is acceptable for assessing a company's indefinite-lived intangible assets. The Company completed the required annual impairment tests of indefinite-lived intangible assets as of March 31, 2013, and no adjustment to the carrying value of indefinite-lived intangible assets was required. The Company assessed its indefinite-lived intangible assets by qualitatively evaluating events and circumstances that have both positive and negative factors, including macroeconomic conditions, industry events, financial performance and other changes and concluded that it was more likely than not that fair value of its indefinite-lived intangible assets exceeds their carrying value.

Future estimated amortization expense does not include additional payments of $2.3 million in 2013 and in each year thereafter for the ongoing amortization of future expected annual Florida slots gaming license fees not yet incurred or paid. Future estimated aggregate amortization expense on existing definite-lived intangible assets for each of the next five fiscal years is as follows (in thousands):

Year Ended December 31,	Estimated Amortization Expense	
2014	$	9,127
2015	$	8,234
2016	$	7,633
2017	$	7,110
2018	$	7,110

NOTE 10—INCOME TAXES

Components of the provision for income taxes are as follows (in thousands):

	2013	2012	2011
Current provision:			
Federal	$ 22,727	$ 21,103	$ 16,918
State and local	2,462	2,351	3,423
Foreign	—	(38)	(149)
	25,189	23,416	20,192
Deferred:			
Federal	5,788	8,292	12,798
State and local	(504)	1,367	1,299
	5,284	9,659	14,097
	$ 30,473	$ 33,075	$ 34,289

The Company's income tax expense is different from the amount computed by applying the federal statutory income tax rate to income before taxes as follows (in thousands):

	2013	2012	2011
Federal statutory tax on earnings before income taxes	$ 29,928	$ 31,929	$ 33,280
State income taxes, net of federal income tax benefit	1,514	2,185	3,283
Non-deductible lobbying and contributions	723	946	517
Tax credits and incentives	(663)	(494)	(775)
Tax adjustments	(174)	(1,093)	(434)
Accruals and settlements related to tax audits	(395)	(686)	(426)
Valuation allowance	(220)	—	105
Change in effective state tax rates	(383)	197	(714)
Other permanent differences	143	91	(547)
	$ 30,473	$ 33,075	$ 34,289

During 2003, the Company entered into a Tax Increment Financing ("TIF") Agreement with the Commonwealth of Kentucky. Pursuant to this agreement, the Company is entitled to receive reimbursement for 80% of the increase in Kentucky income and sales tax resulting from its 2005 renovation of the Churchill facility. During 2011, the Company resolved uncertainties with the Commonwealth of Kentucky related to the computation of the tax increase and the Company recognized a $3.1 million reduction of its operating expenses related to the years 2005 through 2011. In addition, the Company recognized a $0.8 million reduction in its income tax expense, net of federal taxes, related to the years 2005 through 2011. During 2012, the Company recognized an additional $0.7 million reduction to its operating expenses and $0.5 million reduction to its income tax expense, net of federal taxes, from the Commonwealth of Kentucky. During 2013, the Company recognized an additional $0.7 million reduction to its operating expenses and $0.2 million reduction to its income tax expense, net of federal taxes, from the Commonwealth of Kentucky.

As of December 31, 2013, the Company has received $4.4 million of combined benefits and established a sales tax receivable of $1.2 million and an income tax receivable of $1.0 million related to the reimbursement.

For the year ended December 31, 2011, the Company received a refund of $8.5 million related to the overpayment of its 2010 federal income taxes and a refund of $1.9 million related to an amended prior year federal income tax return that served to adjust state lobbying expense deductions.

Components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	2013	2012
Deferred tax assets:		
Deferred compensation plans	$ 14,271	$ 12,022
Deferred income	6,328	8,396
Allowance for uncollectible receivables	1,295	281
Deferred liabilities	3,574	4,239
Net operating losses and credit carryforward	19,186	20,749
Deferred tax assets	44,654	45,687
Valuation allowance	(1,213)	(1,334)
Net deferred tax asset	43,441	44,353
Deferred tax liabilities:		
Intangible assets in excess of tax basis	22,749	18,725
Property and equipment in excess of tax basis	40,135	40,175
Other	2,246	1,874
Deferred tax liabilities	65,130	60,774
Net deferred tax liability	$ (21,689)	$ (16,421)
Income taxes are classified in the balance sheet as follows:		
Net current deferred tax asset	$ 8,927	$ 8,227
Net non-current deferred tax liability	(30,616)	(24,648)
	$ (21,689)	$ (16,421)

As of December 31, 2013, the Company had federal net operating losses of $13.8 million, which were acquired in conjunction with the acquisition of Youbet.com. The utilization of these losses, which expire between 2019 and 2030, is limited on an annual basis pursuant to IRC § 382. The Company believes that it will be able to fully utilize all of these losses. In addition, the Company has $4.3 million of state net operating losses; $1.9 million of this loss carryforward was acquired in conjunction with the acquisition of Youbet.com. These losses, which expire between 2015 and 2030, may be subject to annual limitations similar to IRC § 382. The Company has recorded a valuation allowance of $0.9 million against the state net operating losses due to the fact that it is unlikely that it will generate income in certain states, which is necessary to utilize the assets.

The changes in the valuation allowance for deferred tax assets for the years ended December 31, 2013 and 2012 are as follows (in thousands):

	2013	2012
Balance at beginning of the year	$ 1,334	$ 1,487
Charged to costs and expenses	168	—
Charged to other accounts	—	33
Deductions	(289)	(186)
Balance at end of the year	$ 1,213	$ 1,334

The IRS has audited the Company through 2011. Subsequent years are open to examination. State and local tax years open for examination vary by jurisdiction. As of December 31, 2013, the Company had approximately $0.6 million of total gross unrecognized tax benefits, excluding interest. If these benefits were recognized, there would be a $0.5 million effect to the annual effective tax rate. The company anticipates a decrease in its unrecognized tax positions of approximately $0.1 million during the next twelve months. This anticipated decrease is primarily due to the expiration of statutes of limitations.

During October 2012, the Company funded a $2.9 million income tax payment to the State of Illinois related to a dispute over state income tax apportionment methodology which has been recorded as an other asset as of December 31, 2012. The Company filed its state income tax returns related to the years 2002 through 2005 following the methodology prescribed by Illinois statute, however the State of Illinois has taken a contrary tax position. The Company filed a formal protest with the State of Illinois during the fourth quarter of 2012. The Company does not expect this issue to have a material adverse effect on its business, financial condition or results of operations. See Note 18 for further discussion of this matter.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2013	2012	2011
Balance as of January 1	$ 8,565	$ 2,109	$ 2,926
Additions for tax positions related to the current year	190	—	—
Additions for tax positions of prior years	207	7,390	—
Reductions for tax positions of prior years	(8,380)	(934)	(817)
Balance as of December 31	$ 582	$ 8,565	$ 2,109

The decrease in the uncertain tax position in 2013 was due to an IRS settlement related to the timing of the taxation of receipts from the HRE Trust Fund and the expiration of statute of limitations related to various tax positions. The Company recognizes interest accrued related to unrecognized tax benefits in income tax expense and penalties in selling, general and administrative expenses in the Consolidated Statements of Comprehensive Income. The Company accrued less than $0.2 million of interest for each of the years ended December 31, 2013 and 2012.

NOTE 11—SHAREHOLDERS' EQUITY

Stock Repurchase Program

On April 23, 2013, the Company's Board of Directors authorized the repurchase of up to $100 million of the Company's stock in a stock repurchase program. The Company may repurchase stock in open market purchases or through privately negotiated transactions in compliance with Securities and Exchange Commission Rule 10b-18, subject to market conditions, applicable legal requirements and other relevant factors. The Company expects to fund repurchases using available cash and borrowings under our Senior Secured Credit Facility. The Company is not obligated to purchase any stock under the stock repurchase program, and purchases may be discontinued, or the stock repurchase program may be modified or suspended at any time prior to the termination of the repurchase program on December 31, 2015. During the year ended December 31, 2013, the Company did not repurchase any shares of stock under this program.

Shareholder Rights Plan

On March 13, 2008, the Company's Board of Directors approved a shareholder rights plan, which granted each shareholder the right, in certain circumstances, to purchase a fraction of a share of Series A Junior Participating Preferred Stock at the rate of one right for each share of the Company's common stock. If a person or group, together with its affiliates and associates, become an acquiring person, defined as the beneficial owner of 15% or more of the Company's common stock, each holder of a right (other than the person or group who has become an acquiring person) will have the right to receive, upon exercise, shares of the Company's common stock having a value equal to two times the exercise price of the right. Certain persons and transactions are exempted from the definition of acquiring person. In the event that, at any time following the date such person or group becomes an acquiring person, (i) the Company engages in a merger or other business combination transaction in which the Company is not the surviving corporation (other than with an entity that acquired the shares pursuant to an offer for all outstanding shares of common stock that a majority of the independent directors determines to be fair and not inadequate and to otherwise be in the best interests of the Company and its shareholders, after receiving advice from one or more investment banking firms (a "Qualifying Offer")), (ii) the Company engages in a merger or other business combination transaction (other than with an entity that acquired the shares pursuant to a Qualifying Offer) in which the Company is the surviving corporation and the common stock of the Company is changed or exchanged, or (iii) 50% or more of the Company's assets, cash flow or earnings power is sold or transferred, each holder of a right (other than the person or group who has become an acquiring person) shall thereafter have the right to receive, upon exercise, common stock of the surviving entity having a value equal to two times the exercise price of the right. At any time after a person or group becomes an acquiring person, and prior to the acquisition by such person or group of fifty percent (50)% or more of the outstanding common stock, the Board may exchange the rights (other than rights owned by such acquiring person), in whole or in part, for common stock at an exchange ratio of one share of common stock, or one one-thousandth of a share of Preferred Stock (or of a share of a class or series of the Company's preferred stock having equivalent rights, preferences and privileges), per right (subject to adjustment).

NOTE 12—EMPLOYEE BENEFIT PLANS

The Company has a profit-sharing plan that covers all employees, not otherwise participating in an associated profit-sharing plan, with three months or more of service. The Company will match contributions made by the employee up to 3% of the employee's annual compensation and will also match, at 50%, contributions made by the employee up to an additional 2% of compensation with certain limits. The Company may also contribute a discretionary amount determined annually by the Board of Directors as well as a year-end discretionary match not to exceed 4% of compensation. The Company's cash contribution to the plan for the years ended December 31, 2013, 2012 and 2011 was approximately $2.3 million, $1.8 million and $1.7 million, respectively.

The Company is a member of a noncontributory defined benefit multi-employer retirement plan for all members of the Pari-mutuel Clerk's Union of Kentucky and several other collectively bargained retirement plans, which are administered by unions. Cash contributions are made in accordance with negotiated labor contracts. Retirement plan expense for each of the years ended December 31, 2013, 2012 and 2011 was approximately $0.7 million, $0.6 million and $0.6 million, respectively. The Company's policy is to fund this expense as accrued. The Company currently estimates that future contributions to these plans will not increase significantly from prior years.

The Company provides eligible executives and directors of the Company an opportunity to defer to a future date the receipt of base and bonus compensation for services as well as director's fees through a deferred compensation plan. The Company's matching contribution on base compensation deferrals equals the matching contribution of the Company's profit-sharing plan with certain limits. The Company's cash contribution to the plan amounts to $0.1 million for each of the years ended December 31, 2013, 2012 and 2011, respectively.

NOTE 13—TOTAL DEBT

The following table presents our total debt outstanding at December 31, 2013 and 2012 (in thousands):

	As of December 31, 2013	As of December 31, 2012
Total long-term debt:		
$300 million senior unsecured notes	$ 300,000	$ —
$500 million senior secured credit facility	58,000	—
Swing line of credit	11,191	—
Total long-term debt	369,191	—
Current maturities of long-term debt:		
$375 million senior secured credit facility	—	205,000
Swing line of credit	—	4,728
Current maturities of long-term debt	—	209,728
Total debt	$ 369,191	$ 209,728

5.375% Senior Unsecured Notes

On December 16, 2013, the Company completed an offering of $300 million in aggregate principal amount of 5.375% Senior Unsecured Notes that mature on December 15, 2021 (the "Senior Unsecured Notes"). The Senior Unsecured Notes were issued at par, with interest payable on June 15th and December 15th of each year. The Company received net proceeds of $295 million, after deducting underwriting fees, and used the net proceeds from the offering to repay a portion of its outstanding borrowings, and accrued and unpaid interest outstanding under its Senior Secured Credit Facility. In connection with the issuance, the Company capitalized $6.3 million of debt issuance costs which are being amortized as interest expense over the remaining term of the Senior Unsecured Notes.

The Senior Unsecured Notes were issued in a private offering that was exempt from registration under the Securities Act of 1933, as amended, and are senior unsecured obligations of the Company. The Senior Unsecured Notes are guaranteed by each of the Company's domestic subsidiaries that guarantee its Senior Secured Credit Facility and will rank equally with the Company's existing and future senior obligations. At any time prior to December 15, 2016, the Company may redeem all or part of the Senior Unsecured Notes at par plus the present value (discounted at the treasury rate plus 50 basis points) of scheduled interest payments through December 15, 2016, along with accrued and unpaid interest, if any, at the date of redemption. On or after December 15, 2016, the Company may redeem all or part of the Senior Unsecured Notes at a redemption price of 104.031% which gradually reduces to par by 2019.

Senior Secured Credit Facility

On May 17, 2013, the Company entered into the Third Amended and Restated Credit Agreement (the "Senior Secured Credit Facility") which amended certain provisions of the credit agreement including increasing the maximum aggregate commitment from $375 million to $500 million. The Senior Secured Credit Facility also provides for an accordion feature which, if exercised, could increase the maximum aggregate commitment by up to an additional $225 million and reduce the pricing schedule for outstanding borrowings and commitment fees across all leverage pricing levels. The guarantors under the Senior Secured Credit Facility continue to be a majority of the Company's wholly-owned subsidiaries. The Company incurred loan origination costs of $2.3 million in connection with this amendment, which were capitalized and are being amortized as interest expense over the remaining term of the Senior Secured Credit Facility. The Senior Secured Credit Facility matures on May 17, 2018.

Generally, borrowings made pursuant to the Senior Secured Credit Facility bear interest at a LIBOR-based rate per annum plus an applicable percentage ranging from 1.125% to 3.0% depending on the Company's total leverage ratio. In addition, under the Senior Secured Credit Facility, the Company agreed to pay a commitment fee at rates that range from 0.175% to 0.45% of the available aggregate commitment, depending on the Company's leverage ratio. The weighted average interest rate on outstanding borrowings at December 31, 2013 and 2012 was 1.71% and 1.87%, respectively.

The Senior Secured Credit Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations on the Company and its subsidiaries with respect to indebtedness, restricted payments, liens, investments, mergers and acquisitions, disposition of assets, sale-leaseback transactions and transactions with affiliates. The covenants permit the Company to use proceeds of the credit extended under the agreement for general corporate purposes, restricted payments and acquisition needs. The Senior Secured Credit Facility also contains financial covenants that require the Company (i) to maintain an interest coverage ratio (i.e., consolidated adjusted EBITDA to consolidated interest expense) that is greater than 3.0 to 1.0; (ii) not to permit the total leverage ratio (i.e., total consolidated funded indebtedness to consolidated adjusted EBITDA) to be greater than 4.5 to 1.0, provided that if a certain minimum consolidated adjusted EBITDA is reached then the total leverage ratio will be increased to 5.0 to 1.0 for such periods that the minimum is maintained; and (iii) not to permit the senior secured leverage ratio (i.e. senior secured consolidated funded indebtedness to consolidated adjusted EBITDA) to be greater than 3.5 to 1.0. As of December 31, 2013, the Company was in compliance with all covenants under the Senior Secured Credit Facility, and substantially all of the Company's assets continue to be pledged as collateral under the Senior Secured Credit Facility.

As of December 31, 2013, we had $425 million of borrowing capacity under the Senior Secured Credit Facility.

Future aggregate maturities of total debt are as follows (in thousands):

Year Ended December 31,		
2014	$	—
2015		—
2016		—
2017		—
Thereafter		369,191
Total	$	369,191

NOTE 14—OPERATING LEASES

The Company leases facilities for nine of its eleven OTB operations at Arlington. eight of Arlington's OTB operations are conducted at non-owned Illinois restaurants under licensing agreements with varying payment terms, including payment contingent on handle. These OTB operations are generally multi-year agreements, renewable with 90 days notice by either party. Arlington's ninth leased facility, Waukegan, operates as a traditional OTB under a lease which will expire in 2015. The Company has ten operating lease agreements for Fair Grounds OTBs, which expire in various years from 2014 through 2021. Finally, the Company has an operating lease agreement for its corporate offices which expires in 2023.

Future minimum operating lease payments are as follows, not including the variable portion of contingent leases and Arlington's contingent licensing agreements (in thousands):

Year Ended December 31,		
2014	$	8,024
2015		6,264
2016		4,805
2017		3,390
2018		2,483
Thereafter		5,130
Total	$	30,096

The Company also leases totalisator equipment, gaming equipment, audio/visual equipment and operates certain facilities that are partially contingent on handle, bandwidth usage or race days. Total annual rent expense for contingent lease payments, including totalisator equipment, audio/visual equipment, gaming equipment, land and facilities, was approximately $3.7 million, $3.6 million and $2.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Company's total rent expense for all operating leases, including the contingent lease payments, was approximately $20.2 million, $18.4 million and $19.9 million for the years ended December 31, 2013, 2012 and 2011, respectively. During 2013, the increase in total rent expense primarily reflects an increase in slot machine expense, which is attributable to the acquisitions of Riverwalk and Oxford. During 2012, the reduction in total rent expense reflects a migration in the Company's Racing Operations from totalisator services performed by a third-party to services provided by United Tote.

NOTE 15—LONG-TERM INCENTIVE PLAN

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

In accordance with the Company LTIP, participants earned performance share awards over a five year period (2008 through 2012) payable in either cash or stock of the Company, at the discretion of the Company, based on performance targets achieved by the Company as well as the participant. During the first quarter subsequent to each plan year during the term of the Company LTIP, performance share awards denominated in either cash or stock were awarded to participants based on assessment of the achievement of performance targets. Such awards had varying service conditions and vested on a quarterly basis.

During the year ended December 31, 2013, the Company awarded the final performance share awards under the Company LTIP related to the 2011 and 2012 LTIP years and recognized compensation expense of $5.3 million for the Company LTIP awards. During the year ended December 31, 2012, the performance targets of the Company LTIP were achieved for the 2011 and 2012 plan years. Compensation expense of $6.4 million was recognized for the Company LTIP awards. During the year ended December 31, 2011, the performance targets of the Company LTIP were achieved for the 2010 plan year. Compensation expense of $4.2 million was recognized for the Company LTIP awards.

See Note 16, Shared Based Compensation Plans for discussion of the 2013 long-term incentive award program.

NOTE 16—SHARE-BASED COMPENSATION PLANS

As of December 31, 2013, the Company has share-based employee compensation plans as described below. The total compensation expense, which includes compensation expense related to restricted share awards, restricted stock unit awards, stock option awards, granted LTIP awards and stock options associated with an employee stock purchase plan, was $21.5 million, $7.6 million, and $5.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Employee Stock Options

The Company sponsors the Churchill Downs Incorporated 1997 Stock Option Plan (the "97 Plan") and the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan (the "07 Incentive Plan"). In addition, the Company may, from time to time, grant stock option awards to individuals outside of its share-based compensation plans. These share-based incentive compensation plans are described below.

On March 13, 2003, the Board of Directors suspended the 97 Plan. Awards issued under the 97 Plan prior to its suspension were unaffected by such suspension.

The 97 Plan and the 07 Incentive Plan provide that the exercise price of any incentive stock option may not be less than the fair market value of the common stock on the date of grant. Outstanding stock options under the 97 Plan have contractual terms of ten years and generally vest three years from the date of grant. Outstanding stock options under the 07 Incentive Plan have contractual terms of ten years and generally vest ratably on each anniversary of the grant date over a three year period.

Activity for stock options granted by the Company during the years ended December 31, 2013, 2012 and 2011 is presented below (in thousands, except per common share data):

	Number of Shares Under Option	Weighted Average Exercise Price
Balance as of December 31, 2010	360	$ 36.36
Granted	—	$ —
Exercises	(6)	$ 27.23
Canceled/forfeited	—	$ —
Balance as of December 31, 2011	354	$ 36.52
Granted	—	$ —
Exercises	(153)	$ 36.80
Canceled/forfeited	—	$ —
Balance as of December 31, 2012	201	$ 36.30
Granted	—	$ —
Exercises	(7)	$ 42.94
Canceled/forfeited	(1)	$ 36.12
Balance as of December 31, 2013	193	$ 36.04

During the year ended December 31, 2010, the Company entered into an amended and restated employment agreement with Robert L. Evans, the Company's Chairman of the Board and Chief Executive Officer. Mr. Evans received a stock option, vesting quarterly over approximately three years to purchase an aggregate of 180,000 shares of the Company's common stock, with an exercise price equal to the fair market value of a share of the Company's common stock on September, 27, 2010, the date on which the award was granted. This stock option has a contractual term of six years expiring on November 14, 2016.

Under Mr. Evans' previous employment agreement, Mr. Evans received a stock option, vesting quarterly over three years, to purchase an aggregate of 130,000 shares of the Company's common stock, with an exercise price equal to the fair market value of a share of the Company's common stock on July 18, 2006. During 2012, Mr. Evans exercised options for 130,000 shares of the Company's common stock which were granted at $36.16, for common stock at stock prices ranging from $57.36 to $60.05.

During the years ended December 31, 2013, 2012 and 2011, no stock options were granted. Whenever the Company issues stock options, it estimates the fair value of the stock options as of the date of grant, using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in the Company's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock options. The Company calculates the expected term for its stock options based on historical exercise behavior and bases the risk-free interest rate on a traded zero-coupon U.S. Treasury bond with a term substantially equal to the stock option's expected term. The volatility used to value stock options is based on historical volatility. The Company calculates historical volatility using a simple average calculation methodology based on daily price intervals as measured over the expected term of the stock option.

At December 31, 2013, all outstanding options were vested and exercisable. The following table summarizes information about stock options outstanding as of December 31, 2013 (in thousands, except contractual life and per share data):

	Shares Under Option	Remaining Contractual Life	Average Exercise Price Per Share	Intrinsic Value per Share(1)	Aggregate Intrinsic Value
Options exercisable and vested at December 31, 2013	193	3.0	$ 36.04	$ 53.61	$ 10,358

(1) Computed based upon the amount by which the fair market value of the Company's common stock at December 31, 2013, of $89.65 per share exceeded the weighted average exercise price.

The total intrinsic value of stock options exercised during the years ended December 31, 2013, 2012 and 2011 was $0.3 million, $5.7 million, and $0.1 million, respectively. Cash received from stock option exercises totaled $0.3 million, $3.4 million, and $0.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

At December 31, 2012, there were 161 thousand options exercisable with a weighted average exercise price of $36.57.

Restricted Shares and Restricted Stock Units

2013 New Company LTIP

During 2013, the Board of Directors approved the terms and conditions of performance share awards issued pursuant to the Churchill Downs Incorporated 2007 Omnibus stock incentive plan (the "New Company LTIP"). As a way to continue to encourage innovation, an entrepreneurial approach, and careful risk assessment, and in order to retain key executives, the New Company LTIP offers long-term incentive compensation to the Company's named executive officers and other key executives ("Grantees") as reported in the Company's Schedule 14A Proxy Statement filing, with the exception of our Chairman of the Board and Chief Executive Officer.

During 2013, the Grantees received 92,000 restricted shares of the Company's common stock vesting over approximately four years and 324,000 restricted shares of the Company's common stock with vesting contingent upon the Company's common stock reaching certain closing prices on NASDAQ for 20 consecutive trading days. During the year ended December 31, 2013, the Company's closing stock price achieved the twenty consecutive trading day closing stock price requirement for 155,000 restricted shares. Per the terms of the New Company LTIP, Grantees will vest in these shares during March, August and September 2014.

During the year ended December 31, 2013, the Company recognized $12.8 million of compensation expense related to the New Company LTIP. As of December 31, 2013, unrecognized compensation expense attributable to unvested market condition awards and service period awards was $6.2 million and $4.9 million, respectively. The weighted average period over which the Company expects to recognize the remaining compensation expense under the market condition awards and service period awards approximates 5 months and 29 months, respectively.

Other Restricted Share Awards

The Company sponsored the Churchill Downs Incorporated 2004 Restricted Stock Plan (the "04 Plan"). In addition, the Company, may, from time to time, grant restricted shares or restricted stock units to individuals outside of its share-based compensation plans.

On March 15, 2007, the Board of Directors replaced the 04 Plan with the 07 Incentive Plan. Awards issued under the 04 Plan prior to its termination were unaffected by such termination. The 07 Incentive Plan permits the award of restricted shares or restricted stock units to directors and key employees, including officers, of the Company and its subsidiaries who are from time to time responsible for the management, growth and protection of the business of the Company and its subsidiaries.

Restricted shares granted under the 04 Plan generally vest in full five years from the date of grant or upon retirement at or after age 60. Restricted shares granted under the 07 Incentive Plan generally vest in full three years from the date of grant or upon retirement at or after age 60. The fair value of restricted shares under both the 04 Plan and the 07 Incentive Plan is determined by the product of the number of shares granted and the grant date market price of the Company's common stock, discounted to consider the fact that dividends are not paid on these shares.

During the year ended December 31, 2010, the Company entered into an amended and restated employment agreement with Robert L. Evans. Mr. Evans received (i) 45,000 restricted shares of the Company's common stock, with vesting contingent upon the Company's common stock reaching certain closing prices on NASDAQ for twenty consecutive trading days, and (ii) 81,250 restricted stock shares, vesting quarterly over 6.0 years. During the years ended December 31, 2013 and 2012, 15,000 shares and 30,000 shares, respectively, with vesting contingent upon the Company's stock price, reached the required closing stock prices and vested.

Under a previous employment agreement with Robert L. Evans, Mr. Evans received (i) 90,000 restricted shares of the Company's common stock, with vesting contingent upon the Company's common stock reaching certain closing prices on NASDAQ for twenty consecutive trading days, (ii) 65,000 restricted shares of the Company's common stock, vesting quarterly over five years, and contingent upon the Company's common stock reaching certain closing prices on NASDAQ for ten consecutive trading days and (iii) 65,000 restricted stock units representing shares of the Company's common stock, vesting quarterly over five years, with Mr. Evans entitled to receive the shares underlying the units (along with a cash payment equal to accumulated dividend equivalents beginning with the lapse of forfeiture, plus interest at a 3% annual rate) six months after termination of employment. The restricted share awards were approved by the Company's shareholders at its Annual Meeting of Shareholders held on June 28, 2007, the grant date of these awards. During the years ended December 31, 2013 and 2012, 60,000 shares and 52,500 shares, respectively, with vesting contingent upon the Company's stock price, reached the required closing stock prices and vested.

Activity for the 04 Plan, the 07 Incentive Plan and awards made outside of share-based compensation plans for the years ended December 31, 2013, 2012 and 2011, is presented below (in thousands, except per common share data):

	Market Condition (Performance-Based) Awards		**Service Period Awards**		**Total**	
	Number of Shares	**Weighted Average Grant Date Fair Value**	**Number of Shares**	**Weighted Average Grant Date Fair Value**	**Number of Shares**	**Weighted Average Grant Date Fair Value**
Balance as of December 31, 2010	112	$ 43.40	222	$ 36.72	334	$ 38.96
Granted	—	$ —	156	$ 42.95	156	$ 42.95
Vested	—	$ —	(70)	$ 42.41	(70)	$ 42.21
Canceled/forfeited	—	$ —	(1)	$ 35.81	(1)	$ 35.81
Balance as of December 31, 2011	112	$ 43.76	307	$ 38.63	419	$ 40.01
Granted	—	$ —	182	$ 51.99	182	$ 51.99
Vested	(52)	$ 41.31	(169)	$ 45.85	(221)	$ 44.77
Canceled/forfeited	—	$ —	(1)	$ 39.12	(1)	$ 39.12
Balance as of December 31, 2012	60	$ 45.90	319	$ 42.42	379	$ 42.97
Granted	324	$ 53.71	287	$ 67.55	611	$ 60.21
Vested	(60)	$ 45.90	(256)	$ 59.54	(316)	$ 53.90
Canceled/forfeited	—	$ —	(1)	$ 38.75	(1)	$ 38.75
Balance as of December 31, 2013	324	$ 53.71	349	$ 53.58	673	$ 53.64

As of December 31, 2013, there was $14.9 million of unrecognized share-based compensation expense related to nonvested restricted share and restricted stock unit awards that the Company expects to recognize over a weighted average period of 1.9 years.

As of December 31, 2013, employees of the Company held 324,000 restricted shares subject to performance-based vesting criteria (all of which are considered market-based restricted shares), which were issued during the year ended December 31, 2013. The number of these shares that vest is based upon established market-based performance targets that will be assessed on an ongoing basis.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, the Company is authorized to sell, pursuant to short-term stock options, shares of its common stock to its full-time (or part-time for at least 20 hours per week and at least five months per year) employees at a discount from the common stock's fair market value. The Employee Stock Purchase Plan operates on the basis of recurring, consecutive one-year periods. Each period commences on August 1 and ends on the following July 31.

Each August 1, the Company offers eligible employees the opportunity to purchase common stock. Employees who elect to participate for each period have a designated percentage of their compensation withheld (after-tax) and applied to the purchase of shares of common stock on the last day of the period, July 31. The Employee Stock Purchase Plan allows withdrawals, terminations and reductions on the amounts being deducted. The purchase price for the common stock is 85% of the lesser of the fair market value of the common stock on (i) the first day of the period, or (ii) the last day of the period. No employee may purchase common stock under the Employee Stock Purchase Plan valued at more than $25 thousand for each calendar year.

Under the Employee Stock Purchase Plan, the Company sold approximately seventeen thousand shares of common stock to employees pursuant to options granted on August 1, 2012, and exercised on July 31, 2013. Because the plan year overlaps the Company's fiscal year, the number of shares to be sold pursuant to options granted on August 1, 2013, can only be estimated because the 2013 plan year is not yet complete. The Company's estimate of options granted in 2013 under the Plan is based on the number of shares sold to employees under the Employee Stock Purchase Plan for the 2012 plan year, adjusted to reflect the change in the number of employees participating in the Employee Stock Purchase Plan in 2013. The Company recognized compensation expense related to the Employee Stock Purchase Plan of$0.4 million, $0.4 million, and $0.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

NOTE 17—FAIR VALUE OF ASSETS AND LIABILITIES

The Company endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The following table presents the Company's assets and liabilities measured at fair value at December 31, 2013 and 2012 (in thousands):

	Fair Value Hierarchy	December 31, 2013	December 31, 2012
Cash equivalents and restricted cash	Level 1	$ 36,940	$ 39,033
Contingent consideration liability	Level 3	$ (2,331)	$ (2,331)
Senior Unsecured Notes	Level 2	$ 305,250	$ —

The Company's cash equivalents and restricted cash, which are held in interest-bearing accounts, qualify for Level 1 in the fair value hierarchy which includes unadjusted quoted market prices in active markets for identical assets.

The Company's accrued liability for a contingent consideration recorded in conjunction with the Bluff acquisition was based on significant inputs not observed in the market and represents a Level 3 fair value measurement. The estimate of the contingent consideration liability uses an income approach and is based on the probability of achieving enabling legislation which permits Internet poker gaming and the probability-weighted discounted cash flows. Any change in the fair value of the contingent consideration subsequent to the acquisition date will be recognized in the Company's Consolidated Statements of Comprehensive Income.

The Company's $300 million par value Senior Unsecured Notes, which were issued on December 16, 2013, via a private offering, represent a Level 2 fair value measurement. The fair value of the Senior Unsecured Notes is estimated based on unadjusted quoted prices for similar liabilities in markets that are not active.

The Company currently has no other assets or liabilities subject to fair value measurement on a recurring basis. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

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

During the years ended December 31, 2013 and 2012, the Company did not measure any assets at fair value on a non-recurring basis.

NOTE 18—COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

Illinois Department of Revenue

In October 2012, the Company filed a verified complaint for preliminary and permanent injunctive relief and for declaratory judgment (the "Complaint") against the Illinois Department of Revenue (the "Department"). The Company's complaint was filed in response to Notices of Deficiency issued by the Department on March 18, 2010, and September 6, 2012. In response to said Notices of Deficiency, the Company, on October 4, 2012, issued a payment in protest in the amount of $2.9 million (the "Protest Payment") under the State Officers and Employees Money Disposition Act and recorded this amount as an other asset. The Company subsequently filed its complaint in November alleging that the Department erroneously included handle, instead of the Company's commissions from handle, in the computation of the Company's sales factor (a computation of the Company's gross receipts from wagering within the State of Illinois) for determining the applicable tax owed. On October 30, 2012, the Company's Motion for Preliminary Injunctive Relief was granted, which prevents the Department from depositing any monies from the Protest Payment into the State of Illinois General Fund and from taking any further action against the Company until the Circuit Court takes final action on the Company's Complaint. If successful with its Complaint, the Company will be entitled to a full or partial refund of the Protest Payment from the Department. On October 11, 2013, depositions were taken from the plaintiffs. This matter remains pending before the Tax and Miscellaneous Remedies Section of the Circuit Court of Cook County.

Kentucky Downs

On September 5, 2012, Kentucky Downs Management, Inc. ("KDMI") filed a petition for declaration of rights in Kentucky Circuit Court located in Simpson County, Kentucky styled Kentucky Downs Management Inc. v. Churchill Downs Incorporated (Civil Action No. 12-CI-330) (the "Simpson County Case") requesting a declaration that the Company does not have the right to exercise its put right and require Kentucky Downs, LLC ("Kentucky Downs") and/or Kentucky Downs Partners, LLC ("KDP") to purchase the Company's ownership interest in Kentucky Downs. On September 18, 2012, the Company filed a complaint in Kentucky Circuit Court located in Jefferson County, Kentucky, styled Churchill Downs Incorporated v. Kentucky Downs, LLC; Kentucky Downs Partners, LLC; and Kentucky Downs Management Inc. (Civil Action No. 12-CI-04989) (the "Jefferson County Case") claiming that Kentucky Downs and KDP had breached the operating agreement for Kentucky Downs and requesting a declaration that the Company had validly exercised its put right and a judgment compelling Kentucky Downs and/or KDP to purchase the Company's ownership interest in Kentucky Downs pursuant to the terms of the applicable operating agreement. On October 9, 2012, the Company filed a motion to dismiss the Simpson County Case and Kentucky Downs, KDP and KDMI filed a motion to dismiss the Jefferson County Case. A hearing for the motion to dismiss in the Simpson County Case occurred November 30, 2012. At that hearing the Company's motion to dismiss the Simpson County Case was denied. Subsequently, Kentucky Downs, KDMI and KDP's motion to dismiss the Jefferson County Case was granted on January 23, 2013, due to the Simpson County Circuit Court's assertion of jurisdiction over the dispute. On May 16, 2013, Kentucky Downs, KDP and KDMI filed a Motion for Summary Judgment against the Company and Turfway Park, LLC. On September 19, 2013, the Company filed its response to the Motion for Summary Judgment. A hearing occurred before the Simpson County Circuit Court on September 23, 2013 on the Kentucky Downs, KDP and KDMI Motion for Summary Judgment. All parties appeared before the Simpson County Court and oral arguments were heard. On October 31, 2013, the Simpson County Court entered an Order Denying Petitioners' (Kentucky Downs Management Inc. et al.) Motion for Summary Judgment. The case will now move forward through discovery and to trial. No trial date has been set.

Texas Pari-Mutuel Wagering

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

Balmoral, Maywood and Illinois Harness Horsemen's Association

On February 14, 2011, Balmoral Racing Club, Inc., Maywood Park Trotting Association, Inc. and the Illinois Harness Horsemen's Association, Inc. filed a lawsuit styled *Balmoral Racing Club, Inc., Maywood Park Trotting Association, Inc. and the Illinois Harness Horsemen's Association Inc. vs. Churchill Downs Incorporated, Churchill Downs Technology Initiatives Company d/b/a TwinSpires.com and Youbet.com, LLC* (Case No. 11-CV-D1028) in the United States District Court for the Northern District of

Illinois, Eastern Division. The plaintiffs allege that Youbet.com breached a co-branding agreement dated December 2007, as amended on December 21, 2007, and September 26, 2008 (the "Agreement"), which was entered into between certain Illinois racetracks and a predecessor of Youbet.com. The plaintiffs allege that the defendants breached the agreement by virtue of an unauthorized assignment of the Agreement to TwinSpires.com and further allege that Youbet.com and TwinSpires have misappropriated trade secrets in violation of the Illinois Trade Secrets Act. Finally, the plaintiffs allege that the Company and TwinSpires.com tortiously interfered with the Agreement by causing Youbet.com to breach the Agreement. The plaintiffs have alleged damages of at least $3.6 million, or alternatively, of at least $0.8 million. On April 1, 2011, the plaintiffs filed a motion for a preliminary injunction, seeking an order compelling the defendants to turn over all Illinois customer accounts and prohibiting TwinSpires.com from using that list of Illinois customer accounts. On April 18, 2011, the defendants filed an answer and a motion to dismiss certain counts of the plaintiffs' complaint, and Youbet.com asserted a counterclaim seeking certain declaratory relief relating to allegations that plaintiffs Maywood and Balmoral breached the Agreement in 2010, leading to its proper termination by Youbet.com on December 1, 2010. The preliminary injunction hearing took place on July 6, 2011, and, on July 21, 2011, the court denied the preliminary injunction. On March 9, 2012, the parties mediated the case without resolution. The parties filed motions for summary judgment in November and December 2012, respectively, and replies were filed in January 2013. During June 2013, the Court denied both parties' motions for summary judgment. On November 1, 2013, the Company reached a final settlement in the matter and paid the plaintiffs $2.3 million, of which $2.0 million was reimbursed to the Company by its insurance carrier.

There are no other material pending legal proceedings.

NOTE 19—EARNINGS PER COMMON SHARE COMPUTATIONS

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

	Year Ended December 31,		
	2013	2012	2011
Numerator for basic earnings from continuing operations per common share:			
Earnings from continuing operations	$ 55,033	$ 58,152	$ 60,795
Earnings from continuing operations allocated to participating securities	(873)	(518)	(1,103)
Numerator for basic earnings from continuing operations per common share	$ 54,160	$ 57,634	$ 59,692
Numerator for basic earnings per common share:			
Net earnings	$ 54,900	$ 58,276	$ 64,355
Net earnings allocated to participating securities	(870)	(519)	(1,180)
Numerator for basic net earnings per common share	$ 54,030	$ 57,757	$ 63,175
Numerator for diluted earnings from continuing operations per common share:	$ 55,033	$ 58,152	$ 60,795
Numerator for diluted earnings per common share	$ 54,900	$ 58,276	$ 64,355
Denominator for net earnings per common share:			
Basic	17,294	17,047	16,638
Plus dilutive effect of stock options and restricted stock	248	233	118
Plus dilutive effect of participating securities	396	195	369
Diluted	17,938	17,475	17,125
Earnings (loss) per common share:			
Basic			
Earnings from continuing operations	$ 3.13	$ 3.38	$ 3.59
Discontinued operations	(0.01)	0.01	0.21
Net earnings	$ 3.12	$ 3.39	$ 3.80
Diluted			
Earnings from continuing operations	$ 3.07	$ 3.33	$ 3.55
Discontinued operations	(0.01)	0.01	0.21
Net earnings	$ 3.06	$ 3.34	$ 3.76

Options to purchase approximately 18 thousand shares for the year ended December 31, 2011, were not included in the computation of earnings per common share assuming dilution because the options' exercise prices were greater than the average market price of the common shares.

NOTE 20—SEGMENT INFORMATION

The Company operates in the following four segments: (1) Racing Operations, which includes Churchill Downs, Arlington and its eleven OTBs, Calder and Fair Grounds and the pari-mutuel activity generated at its twelve OTBs; (2) Gaming, which includes video poker and gaming operations at Calder Casino, Fair Grounds Slots, Harlow's, Riverwalk, Oxford and VSI; (3) Online Business, which includes TwinSpires, our ADW business, Fair Grounds Account Wagering, Bloodstock Research Information Services, Velocity and Luckity, as well as the Company's equity investment in HRTV, LLC; and (4) Other Investments, which includes United Tote, MVG, Bluff and the Company's other minor investments. Eliminations include the elimination of intersegment transactions.

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

In order to evaluate the performance of these operating segments internally, the Company uses Adjusted EBITDA (defined as earnings before interest, taxes, depreciation, amortization, insurance recoveries net of losses, HRE Trust Fund proceeds, share-based compensation expenses, pre-opening expenses, the impairment of assets and other charges or recoveries). Adjusted EBITDA also includes 50% of the operating income or loss of our joint venture, MVG. During the year ended December 31, 2013, the Company implemented the Adjusted EBITDA metric because it believes the inclusion or exclusion of certain recurring and non-recurring items is necessary to provide a more accurate measure of its core operating results and enables management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. The 2012 and 2011 financial information has been retrospectively revised to reflect the change in the segment profitability reporting measure. Adjusted EBITDA should not be considered as an alternative to operating income as an indicator of performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure provided in accordance with GAAP. The Company's calculation of Adjusted EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" in Note 1. The table below presents information about reported segments for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,		
	2013	**2012**	**2011**
Net revenues from external customers:			
Churchill Downs	$ 132,845	$ 124,255	$ 121,886
Arlington	64,483	69,077	69,694
Calder	36,264	64,566	62,715
Fair Grounds	40,677	44,190	44,625
Total Racing Operations	274,269	302,088	298,920
Calder Casino	78,951	77,864	82,819
Fair Grounds Slots	42,156	42,881	41,553
VSI	35,931	35,433	35,052
Harlow's Casino	52,440	56,604	53,205
Oxford Casino	34,350	—	—
Riverwalk Casino	53,645	10,330	—
Total Gaming	297,473	223,112	212,629
Online Business	184,541	183,279	165,416
Other Investments	21,899	21,785	19,563
Corporate	1,143	1,032	326
Net revenues from external customers	$ 779,325	$ 731,296	$ 696,854
Intercompany net revenues:			
Churchill Downs	$ 6,686	$ 5,592	$ 5,088
Arlington	3,395	4,712	3,725
Calder	1,263	1,583	2,307
Fair Grounds	1,151	1,270	1,164
Total Racing Operations	12,495	13,157	12,284
Online Business	853	836	786
Other Investments	4,409	3,466	2,015
Eliminations	(17,757)	(17,459)	(15,085)
Net revenues	$ —	$ —	$ —

	Year Ended December 31, 2013	2012	2011
Reconciliation of segment Adjusted EBITDA to net earnings:			
Racing Operations	$ 50,275	$ 54,357	$ 47,236
Gaming	80,429	64,231	58,590
Online Business	49,122	44,618	40,918
Other Investments	1,011	(117)	1,269
Total segment Adjusted EBITDA	180,837	163,089	148,013
Corporate Adjusted EBITDA	(4,606)	(4,834)	(2,523)
Insurance recoveries, net of losses	375	7,006	972
HRE Trust Fund proceeds	4,541	—	19,258
Share-based compensation expense	(21,482)	(13,993)	(9,730)
Pre-opening expenses	(3,620)	—	—
MVG interest expense, net	(170)	—	—
Other charges and recoveries, net	(2,500)	—	2,720
Depreciation and amortization	(61,750)	(55,600)	(55,170)
Interest income (expense), net	(6,119)	(4,441)	(8,456)
Income tax provision	(30,473)	(33,075)	(34,289)
Earnings from continuing operations	55,033	58,152	60,795
Discontinued operations, net of income taxes	(133)	124	3,560
Net earnings and comprehensive income	$ 54,900	$ 58,276	$ 64,355

The table below presents information about equity in (losses) earnings of unconsolidated investments included in the Company's reported segments for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31, 2013	2012	2011
Online Business	$ (848)	$ (1,413)	$ (1,198)
Other Investments	(3,294)	(288)	85
	$ (4,142)	$ (1,701)	$ (1,113)

The tables below present total asset information about reported segments as of December 31, 2013 and 2012 and capital expenditures for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	As of December 31, 2013	2012
Total assets:		
Racing Operations	$ 513,345	$ 502,993
Gaming	535,887	382,054
Online Business	186,621	184,638
Other Investments	116,408	44,652
	$ 1,352,261	$ 1,114,337

	Year Ended December 31,		
	2013	2012	2011
Capital expenditures, net:			
Racing Operations	$ 20,184	$ 14,027	$ 7,484
Gaming	13,643	14,524	7,490
Online Business	5,908	4,427	2,774
Other Investments	9,036	8,320	4,919
	$ 48,771	$ 41,298	$ 22,667

NOTE 21—RELATED PARTY TRANSACTIONS

Directors and employees of the Company may from time to time own or have interests in horses racing at the Company's racetracks. All such races are conducted, as applicable, under the regulations of each state's respective regulatory agency, and no director receives any extra or special benefit with regard to having his or her horses selected to run in races or in connection with the actual running of races. There is no material financial statement impact attributable to directors who may have interests in horses racing at our racetracks.

In its ordinary course of business, the Company may enter into transactions with certain of its officers and directors for the sale of personal seat licenses and suite accommodations at its racetracks, and tickets for its live racing events. The Company believes that each such transaction has been on terms no less favorable for the Company than could have been obtained in a transaction with a third party and no such person received any extra or special benefit in connection with such transactions.

NOTE 22 — HRE TRUST FUND PROCEEDS

Under legislation enacted in 1999, the HRE Trust Fund was scheduled to receive amounts equal to 15% of the adjusted gross receipts generated by a tenth riverboat casino license to be granted in Illinois. The funds were to be distributed to racetracks in Illinois for purses as well as racetrack discretionary spending. During December 2008, the Illinois Gaming Board awarded the tenth riverboat license to a casino in Des Plaines, Illinois. This casino opened during July 2011, entitling the Illinois racing industry to receive an amount equal to 15% of the adjusted gross receipts of this casino from the gaming taxes generated by that casino, once the accumulated funds were appropriated by the state.

On July 10, 2013, the Governor of Illinois signed Illinois House Bill 214 into law, providing for the release of $23.0 million of funds collected from the tenth riverboat licensee since its opening during 2011. During the year ended December 31, 2013, Arlington received $7.9 million as its share of the proceeds, of which $3.6 million was designated for Arlington purses. The remaining $4.2 million was recognized as miscellaneous other income in the Company's Consolidated Statements of Comprehensive Income during the year ended December 31, 2013. No additional proceeds related to future funds of the tenth riverboat are expected to be distributed to Illinois racetracks under the provisions of House Bill 214.

Supplementary Financial Information — Results of Operations (Unaudited)

The results from operation for all periods presented have been revised to reflect the results of Fight as discontinued operations. Summarized unaudited consolidated quarterly information for the years ended December 31, 2013 and 2012 is provided below (in thousands, except per common share data):

	For the Year Ended December 31, 2013			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenues	$ 147,876	$ 283,593	$ 185,496	$ 162,360
Earnings (loss) from continuing operations	$ 1,089	$ 50,308	$ 9,208	$ (5,573)
Discontinued operations, net of income taxes:				
(Loss) earnings from operations	$ (31)	$ (10)	$ 41	$ (49)
Loss on sale of assets	—	—	—	$ (83)
Net earnings and comprehensive income (loss)	$ 1,058	$ 50,298	$ 9,249	$ (5,705)
Net earnings per common share:				
Basic:				
Earnings (loss) from continuing operations	$ 0.06	$ 2.85	$ 0.52	$ (0.32)
Discontinued operations	—	—	—	(0.01)
Net earnings (loss)	$ 0.06	$ 2.85	$ 0.52	$ (0.33)
Diluted:				
Earnings (loss) from continuing operations	$ 0.06	$ 2.81	$ 0.51	$ (0.32)
Discontinued operations	—	—	0.01	(0.01)
Net earnings (loss)	$ 0.06	$ 2.81	$ 0.52	$ (0.33)

	For the Year Ended December 31, 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenues	$ 137,973	$ 270,467	$ 164,607	$ 158,250
Earnings from continuing operations	$ 1,301	$ 48,509	$ 5,964	$ 2,378
Discontinued operations, net of income taxes:				
Earnings (loss) from operations	$ 52	$ 67	$ 9	$ (4)
Net earnings and comprehensive income	$ 1,353	$ 48,576	$ 5,973	$ 2,374
Net earnings per common share:				
Basic:				
Earnings from continuing operations	$ 0.08	$ 2.81	$ 0.34	$ 0.14
Discontinued operations	—	0.01	—	—
Net earnings	$ 0.08	$ 2.82	$ 0.34	$ 0.14
Diluted:				
Earnings from continuing operations	$ 0.07	$ 2.77	$ 0.34	$ 0.14
Discontinued operations	0.01	—	—	—
Net earnings	$ 0.08	$ 2.77	$ 0.34	$ 0.14

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Included in this Annual Report on Form 10-K are certifications of our Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”). This section includes information concerning the controls and controls evaluation referred to in the certifications.

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits to the Securities and Exchange Commission is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company’s Disclosure Committee and management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

(b) Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

(i) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (1992).*

We have excluded Oxford Casino ("Oxford") from our assessment of internal controls over financial reporting as of December 31, 2013, because it was acquired by us in a business acquisition during 2013. Oxford is a wholly-owned subsidiary whose total assets were 12.5% and total revenues were 4.4% of the related consolidated financial statement amounts as of and for the year ended December 31, 2013.

Based on our assessment using those criteria, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2013.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2013, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears under Item 8.

(c) Changes in Internal Control Over Financial Reporting

Management of the Company has evaluated, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the fourth quarter of 2013. There have not been any changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required herein is incorporated by reference from sections of the Company's Proxy Statement titled "Section 16(a) Beneficial Ownership Reporting Compliance," "Election of Directors," "Executive Officers of the Company," "Corporate Governance" and "Audit Committee," to be filed with the Securities and Exchange Commission in connections with the Company's 2014 Annual Meeting of Shareholders ("the Proxy Statement") pursuant to instruction G(3) of the General Instructions to Form 10-K.

The Company has adopted a Code of Ethics that applies to its Chief Executive Officer, Chief Financial Officer and employees performing similar functions. This Code of Ethics is available on the Company's corporate website, www.churchilldownsincorporated.com, under the "Investors" heading. A copy of this Code of Ethics is also available and will be sent to shareholders free of charge upon request to the Company's Secretary.

ITEM 11. EXECUTIVE COMPENSATION

The information required herein is incorporated by reference from sections of the Company's Proxy Statement titled "Election of Directors — Director Compensation for the year ended December 31, 2013," "Compensation Committee Interlocks and Insider Participation," "Corporate Governance," "Certain Relationships and Related Transactions," "Executive Compensation," "Compensation Committee Report" and "Compensation Discussion and Analysis," pursuant to instruction G(3) of the General Instructions to Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required herein is incorporated by reference from the sections of the Company's Proxy Statement titled "Security Ownership of Certain Beneficial Owners and Management," "Election of Directors," "Executive Officers of the Company" and "Equity Compensation Plan Information," pursuant to instruction G(3) of the General Instructions to Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required herein is incorporated by reference from the section of the Company's Proxy Statement titled "Certain Relationships and Related Transactions" and "Corporate Governance," pursuant to instruction G(3) of the General Instructions to Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required herein is incorporated by reference from the section of the Company's Proxy Statement titled "Independent Public Accountants," pursuant to instruction G(3) of the General Instructions to Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(c) All financial statements and schedules except those items listed under Items 15(a)(1) and (2) above are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHURCHILL DOWNS INCORPORATED

/s/ Robert L. Evans

Robert L. Evans
Chairman of the Board and
Chief Executive Officer
February 26, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Robert L. Evans	/s/ William E. Mudd	/s/ Ulysses L. Bridgeman
Robert L. Evans Chairman of the Board and Chief Executive Officer February 26, 2014 (Chairman of the Board and Principal Executive Officer)	William E. Mudd Executive Vice President and Chief Financial Officer February 26, 2014 (Principal Financial and Accounting Officer)	Ulysses L. Bridgeman February 26, 2014 (Director)
/s/ Leonard S. Coleman, Jr.	/s/ Craig J. Duchossois	/s/ Richard L. Duchossois
Leonard S. Coleman, Jr. February 26, 2014 (Director)	Craig J. Duchossois February 26, 2014 (Director)	Richard L. Duchossois February 26, 2014 (Director)
/s/ Robert L. Fealy	/s/ Daniel P. Harrington	/s/ G. Watts Humphrey, Jr.
Robert L. Fealy February 26, 2014 (Director)	Daniel P. Harrington February 26, 2014 (Director)	G. Watts Humphrey, Jr. February 26, 2014 (Director)
/s/ James F. McDonald	/s/ R. Alex Rankin	/s/ Darrell R. Wells
James F. McDonald February 26, 2014 (Director)	R. Alex Rankin February 26, 2014 (Director)	Darrell R. Wells February 26, 2014 (Director)

CHURCHILL DOWNS INCORPORATED
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Description	Balance Beginning of Year	Acquired Balances	Charged to Expenses	Deductions	Balance End of Year
Allowance for doubtful accounts:					
2013	$ 1,885	$ —	$ 3,785	$ (1,332)	$ 4,338
2012	$ 2,408	$ —	$ 1,937	$ (2,460)	$ 1,885
2011	$ 4,098	$ —	$ 1,386	$ (3,076)	$ 2,408

Description	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Deferred income tax asset valuation allowance:				
2013	$ 1,334	$ 168	$ (289)	$ 1,213
2012	$ 1,487	$ 33	$ (186)	$ 1,334
2011	$ 1,381	$ 106	$ —	$ 1,487

EXHIBIT INDEX

Numbers		Description	By Reference To
2	(a)	Purchase Agreement dated as of September 10, 2010 among Churchill Downs Incorporated, SWG Holdings, LLC and HCRH, LLC	Exhibit 10.1 to Current Report on Form 8-K filed September 13, 2010
3	(a)	Amended and Restated Articles of Incorporation of Churchill Downs Incorporated, as amended July 3, 2012	Exhibit 3.1 to Current Report on Form 8-K filed July 10, 2012
	(b)	Amended and Restated Bylaws of Churchill Downs Incorporated, as amended July 3, 2012	Exhibit 3.1 to Current Report on Form 8-K filed July 10, 2012
4	(a)	Rights Agreement, dated as of March 19, 2008 by and between Churchill Downs Incorporated and National City Bank	Exhibit 4.1 to Current Report on Form 8-K filed March 17, 2008
	(b)	Second Amended and Restated Credit Agreement dated December 22, 2009, among Churchill Downs Incorporated, the guarantors party thereto, the Lenders party thereto and JPMorgan Chase Bank, N.A., as agent and collateral agent, with PNC Bank, National Association, as Syndication Agent, and Fifth Third Bank, U.S. Bank, National Association and Wells Fargo Bank, National Association, as Documentation Agents	Exhibit 10.1 to Current Report on Form 8-K filed December 29, 2009
	(c)	Amendment No. 1 to the Second Amended and Restated Credit Agreement, dated November 1, 2010 among Churchill Downs Incorporated, the guarantors party thereto, the Lenders party thereto and JPMorgan Chase Bank, N.A., as agent and collateral agent, with PNC Bank, National Association, as Syndication Agent, and Fifth Third Bank, U.S. Bank, National Association and Wells Fargo Bank, National Association, Documentation Agents	Exhibit 10.1 to Current Report on Form 8-K filed November 1, 2010
	(d)	Third Amendment and Restated Credit Agreement, dated May 17, 2013 among Churchill Downs Incorporated, the guarantors party thereto, the Lenders party thereto and JP Morgan Chase Bank, N.A., as agent and collateral agent, with PNC Bank, National Association, as Syndication Agent, and Fifth Third Bank, U.S. Bank, National Association and Wells Fargo Bank, National Association, Documentation Agents	Exhibit 10(a) to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2013.
10	(a)	Churchill Downs Incorporated Amended and Restated Supplemental Benefit Plan dated December 1, 1998*	Exhibit 10(a) to Annual Report on Form 10-K for the fiscal year ended December 31, 1998
	(b)	Churchill Downs Incorporated 2003 Stock Option Plan*	Exhibit 4(e) to the Registration Statement on Form S-8 dated June 20, 2003 (No. 333-106310)
	(c)	Churchill Downs Incorporated Amended and Restated Incentive Compensation Plan (1997)*	Exhibit 10(g) to Annual Report on Form 10-K for the fiscal year ended December 31, 2003
	(d)	Fourth Amended and Restated Churchill Downs Incorporated 1997 Stock Option Plan*	Exhibit 10(a) to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2002
	(e)	Amended and Restated Lease Agreement dated January 31, 1996	Exhibit 10(i) to Annual Report on Form 10-K for the fiscal year ended December 31, 1995
	(f)	Churchill Downs Incorporated Amended and Restated Deferred Compensation Plan for Employees and Directors*	Exhibit 10(a) to Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2001
	(g)	Form of Stockholder's Agreement, dated September 8, 2000 among Churchill Downs Incorporated and Duchossois Industries, Inc.	Annex C of the Proxy Statement for a Special Meeting of Shareholders of Churchill Downs Incorporated held September 8, 2000

Numbers	Description	By Reference To
(h)	Lease Agreement between the City of Louisville, Kentucky and Churchill Downs Incorporated dated January 1, 2003	Exhibit 2.1 to Current Report on Form 8-K filed January 6, 2003
(i)	Form of Restricted Stock Agreement*	Exhibit 10.1 to Current Report on Form 8-K filed November 30, 2004
(j)	Stock Redemption Agreement dated as of October 19, 2004, between Churchill Downs Incorporated and Brad M. Kelley	Exhibit 10.2 to Current Report on Form 8-K filed October 25, 2004
(k)	Churchill Downs Incorporated Amended and Restated Convertible Promissory Note dated March 7, 2005	Exhibit 10.1 to Current Report on Form 8-K filed March 11, 2005
(l)	2005 Churchill Downs Incorporated Deferred Compensation Plan, as amended*	Exhibit 10.1 to Current Report on Form 8-K filed June 21, 2005
(m)	Reinvestment Agreement dated as of September 23, 2005, among Bay Meadows Land Company, LLC, Stockbridge HP Holdings Company, LLC, Stockbridge Real Estate Fund II-A, LP, Stockbridge Real Estate Fund II-B, LP, Stockbridge Real Estate Fund II-T, LP, Stockbridge Hollywood Park Co-Investors, LP and Churchill Downs Investment Company	Exhibit 10.3 to Current Report on Form 8-K filed September 29, 2005
(n)	2006 Amendment to 2005 Churchill Downs Incorporated Deferred Compensation Plan*	Exhibit 10.1 to Current Report on Form 8-K filed June 8, 2006
(o)	Churchill Downs Incorporated 2004 Restricted Stock Plan, as amended*	Exhibit 10.1 to Current Report on Form 8-K filed June 21, 2006
(p)	Churchill Downs Incorporated Restricted Stock Agreement for 90,000 Shares made as of July 18, 2006 by and between Robert L. Evans and Churchill Downs Incorporated*	Exhibit 10(d) to Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2006
(q)	Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan*	Exhibit A to Schedule 14A filed April 30, 2007
(r)	Amendment to Churchill Downs Incorporated 2005 Deferred Compensation Plan Adopted June 28, 2007*	Exhibit 10(b) to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007
(s)	Amended and Restated Terms and Conditions of Performance Share Awards Issued Pursuant to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan	Exhibit 10.1 to Current Report on Form 8-K filed December 19, 2008
(t)	Amended and Restated Terms and Conditions of Performance Share Awards Issued Pursuant to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan for Employees of TwinSpires	Exhibit 10.1 to Current Report on Form 8-K filed December 19, 2008
(u)	First Amendment to the Churchill Downs Incorporated Amended and Restated Incentive Compensation Plan (1997), effective November 14, 2008*	Exhibit 10 (vv) to Annual Report on Form 10-K for the fiscal year ended December 31, 2008
(v)	2005 Churchill Downs Incorporated Deferred Compensation Plan (As Amended as of December 1, 2008)*	Exhibit 10 (ww) to Annual Report on Form 10-K for the fiscal year ended December 31, 2008
(w)	Churchill Downs Incorporated Executive Severance Policy (Amended Effective as of November 12, 2008)*	Exhibit 10 (xx) to Annual Report on Form 10-K for the fiscal year ended December 31, 2008
(x)	Agreement and Sale of Purchase, dated as of November 30, 2009, between The Duchossois Group, Inc. and Arlington Park Racecourse, LLC	Exhibit 10.1 to Current Report on Form 8-K filed December 4, 2009
(y)	Promissory Note, dated as of December 3, 2009, made by Arlington Park Racecourse, LLC to The Duchossois Group, Inc.	Exhibit 10.2 to Current Report on Form 8-K filed December 4, 2009
(z)	Offer letter to Rohit Thurkal effective May 19, 2009	Exhibit 10.1 to Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010

Numbers	Description	By Reference To
(aa)	Dissolution Agreement for TrackNet Media Group, LLC by and between Churchill Downs Incorporated and MI Developments, Inc, entered May 14, 2010	Exhibit 99.1 to Current Report on Form 8-K dated May 19, 2010
(bb)	Amended and Restated Employment Agreement dated as of September 27, 2010, by and between Churchill Downs Incorporated and Robert L. Evans	Exhibit 10(a) to Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2010
(cc)	Churchill Downs Incorporated Stock Option Agreement for 180,000 Options made as of September 27, 2010 by and between Churchill Downs Incorporated and Robert L. Evans*	Exhibit 10(hh) to Annual Report on Form 10-K for the fiscal year ended December 31, 2011
(dd)	Employment Agreement dated as of March 21, 2011 by and between Churchill Downs Incorporated and William C. Carstanjen*	Exhibit 10(a) to Amendment No. 1 to Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2011
(ee)	Employment Agreement dated as of October 10, 2011 by and between Churchill Downs Incorporated and William E. Mudd*	Exhibit 10(a) to Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2011
(ff)	Employment Agreement dated as of February 28, 2011 by and between Churchill Downs Incorporated and Alan K. Tse*	Exhibit 10(kk) to Annual Report on Form 10-K for the fiscal year ended December 31, 2011
(gg)	Form of Churchill Downs Incorporated Restricted Stock Agreement*	Exhibit 10(ll) to Annual Report on Form 10-K for the fiscal year ended December 31, 2011
(hh)	Limited Liability Company Agreement of Miami Valley Gaming & Racing, LLC, dated as of March 1, 2012, among Miami Valley Gaming & Racing, LLC, Churchill Downs Incorporated, MVGR, LLC (a wholly-owned subsidiary of Churchill Downs Incorporated), Delaware North Companies Gaming & Entertainment, Inc. and DNC Ohio Gaming, Inc. (a wholly-owned subsidiary of Delaware North Companies Gaming & Entertainment, Inc.)	Exhibit 10.1 to Current Report on Form 8-K filed March 5, 2012
(ii)	Asset Purchase Agreement, dated as of March 1, 2012, between Miami Valley Gaming & Racing LLC; Lebanon Trotting Club, Inc.; Miami Valley Trotting, Inc.; Keith Nixon Jr. and John Carlo	Exhibit 10.2 to Current Report on Form 8-K filed March 5, 2012
(jj)	Consulting Agreement dated as of June 26, 2012 by and between Churchill Downs Incorporated and Michael B. Brodsky	Exhibit 10(a) to Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012
(kk)	Transition and Separation Agreements dated as of April 10, 2012 by and between Churchill Downs Incorporated and Rohit Thurkal	Exhibit 10(a) to Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012
(ll)	Indenture dated as of December 16, 2013 by and among Churchill Downs Incorporated, the Guarantors, and US Bank National Association.	Exhibit (4.1) to Current Report on Form 8-K dated December 16, 2013.
(mm)	Registration Rights Agreement dated December 16, 2013 by and among Churchill Downs Incorporated, the Guarantors and the representatives of the initial purchasers.	Exhibit (4.2) to Current Report on Form 8-K dated December 16, 2013.
(nn)	Churchill Downs Incorporated Executive Annual Incentive Plan	Exhibit A of the Proxy Statement for a Meeting of Shareholders of Churchill Downs Incorporated held June 14, 2012.
(oo)	Amendment to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan	Exhibit B of the Proxy Statement for a Meeting of Shareholders of Churchill Downs Incorporated held June 14, 2012.
14	Churchill Downs Incorporated Code of Ethics as of December 31, 2003	Exhibit 14 to Annual Report on Form 10-K for the fiscal year ended December 31, 2003

Numbers		Description	By Reference To
21		Subsidiaries of the Registrant	Exhibit 21 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013
23		Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm	Exhibit 23 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013
31	(a)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Exhibit 31(a) to Annual Report on Form 10-K for the fiscal year ended December 31, 2013
	(b)	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Exhibit 31(b) to Annual Report on Form 10-K for the fiscal year ended December 31, 2013
32		Certification of Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Rule 13a-14(b))	Exhibit 32 to Annual Report on Form 10-K for the fiscal year ended December 31, 2013
101	INS	XBRL Instance Document	
101	SCH	XBRL Taxonomy Extension Schema Document	
101	CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101	DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101	LAB	XBRL Taxonomy Extension Label Linkbase Document	
101	PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

* Management contract or compensatory plan or arrangement.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Subsidiary	**State/Jurisdiction of Incorporation/Organization**
Arlington Park Racecourse, LLC	Illinois
Arlington OTB Corp.	Illinois
Quad City Downs, Inc.	Iowa
Calder Race Course, Inc., d/b/a Calder Casino and Race Course	Florida
Tropical Park, LLC	Florida
Churchill Downs Louisiana Horseracing Company, LLC d/b/a Fair Grounds Race Course & Slots	Louisiana
Churchill Downs Louisiana Video Poker Company, LLC	Louisiana
Video Services, LLC	Louisiana
Churchill Downs Technology Initiatives Company d/b/a Bloodstock Research Information Services and TwinSpires.com	Delaware
Churchill Downs Management Company, LLC	Kentucky
Churchill Downs Investment Company	Kentucky
HCRH, LLC	Delaware
Magnolia Hill, LLC d/b/a Riverwalk Casino Hotel, LLC	Delaware
SW Gaming, LLC d/b/a Harlow's Casino & Resort Hotel	Mississippi
United Tote Company	Montana
United Tote Canada, Inc.	Ontario
Churchill Downs Racetrack, LLC	Kentucky
Velocity Wagering HC, LLC	Delaware
Velocity Wagering Services Limited	Isle of Man
MVGR, LLC	Delaware
Miami Valley Gaming & Racing, LLC	Delaware
Bluff Holdings Georgia, Inc.	Georgia
Bluff Holding Company, LLC	Delaware
Churchill Downs Interactive Gaming, LLC	Delaware
BB Development, LLC d/b/a Oxford Casino	Maine

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-182929, 333-182928, 333-62013, 333-41376, 333-43486, 333-100574, 333-106310, 333-116734, 333-127057, 333-135360, 033-61111, 333-116733, 333-144182, 333-144191 and 333-144192) of Churchill Downs Incorporated of our report dated February 26, 2014 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Louisville, Kentucky
February 26, 2014

EXHIBIT 31(a)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Robert L. Evans, certify that:

1. I have reviewed this Annual Report on Form 10-K of Churchill Downs Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2014

/s/ Robert L. Evans

Robert L. Evans
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31(b)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, William E. Mudd, certify that:

1. I have reviewed this Annual Report on Form 10-K of Churchill Downs Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2014

/s/ William E. Mudd

William E. Mudd
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Churchill Downs Incorporated (the "Company") for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Robert L. Evans, as Chairman of the Board and Chief Executive Officer (Principal Executive Officer) of the Company, and William E. Mudd, as Executive Vice President and Chief Financial Officer (Principal Financial Officer) of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert L. Evans

Robert L. Evans
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

February 26, 2014

/s/ William E. Mudd

William E. Mudd
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

February 26, 2014

This certification is being furnished to the Securities and Exchange Commission as an exhibit to the Report and shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Churchill Downs Incorporated and will be retained by Churchill Downs Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

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Thank you for your investment in Churchill Downs and for your trust in our leadership

Board of Directors

Ulysses L. Bridgeman, Jr.
Owner & President,
Manna, Inc.;
Owner & President,
ERJ Dining, LLC
(2016)

Leonard S. Coleman, Jr.
Former President,
National League of
Professional Baseball Clubs
(2015)

Craig J. Duchossois
Chief Executive Officer &
Director,
The Duchossois Group, Inc.
(2015)

Richard L. Duchossois
Founder & Chairman,
The Duchossois Group, Inc.
(2016)

Robert L. Fealy
President, Chief Operating
Officer & Director
The Duchossois Group, Inc.
(2014)

Daniel P. Harrington
President &
Chief Executive Officer,
HTV Industries, Inc.
(2014)

G. Watts Humphrey, Jr.
Lead Independent Director, CDI;
President, GWH Holdings, Inc.;
Chairman, IPEG & Centria;
Owner, Shawnee Farm
(2015)

James F. McDonald
Former Chairman & CEO,
Scientific Atlanta Inc.;
Former Senior Vice President,
Cisco Systems, Inc.
(2016)

R. Alex Rankin
President,
Sterling G. Thompson Co.;
President,
Upson Downs Farms, Inc.
(2016)

Darrell R. Wells
General Partner,
Security Management Company
(2014)

Executive Officers

Robert L. Evans
Chairman &
Chief Executive Officer
(2015)

William C. Carstanjen
President &
Chief Operating Officer

William E. Mudd
Executive Vice President &
Chief Financial Officer

Alan K. Tse
Executive Vice President,
General Counsel & Secretary

Directors Emeriti

Charles W. Bidwell, Jr.
Catesby W. Clay
J. David Grissom
Thomas H. Meeker
Carl F. Pollard

NOTE: Parenthetical numbers denote year of term expiration

CHURCHILL DOWNS
INCORPORATED

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LOUISVILLE, KENTUCKY 40222
#502.636.4400

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