



CHURCHILL DOWNS

INCORPORATED

Notice of Annual Meeting of Shareholders
2020 Proxy Statement
2019 Annual Report on Form 10-K

Dear Fellow Shareholders,

We had a productive year of which we are proud and, equally important, we believe we have positioned the company for future growth.

With our focus on our three primary segments—Churchill Downs, Online Wagering and Gaming—we have demonstrated our ability to grow organically, invest capital to grow our existing assets, develop and build greenfields that create substantial growth over the long term, and acquire strategic assets that we anticipate will provide significant growth potential at attractive multiples. We have demonstrated this capability while effectively managing our capital and maintaining a relatively low leverage level.

On the attached page, you will see Financial Highlights, including our Total Shareholder Return. In addition, we returned over \$115 million to our shareholders in 2019 through dividends and share repurchases, and on a cumulative basis, have returned over \$1 billion to our shareholders over the past five years. Some of the highlights of 2019 that drove these results and we believe set us up for future growth include:

- Delivered the 10th consecutive year of record-setting financial performance for Derby week and the Kentucky Derby;
- Began construction of the \$300 million hotel and 900-unit historical horse racing machine (“HRM”) facility at Churchill Downs Racetrack;
- Completed our equity investment in Rivers Casino Des Plaines and acquired Presque Isle Downs & Casino and Turfway Park; and
- Began the buildout of the Oak Grove Racing and Gaming facility.

We had a total shareholder return in 2019 of 69%—a return that significantly exceeded the S&P500, the Russell 2000, the S&P Midcap 400 Index and virtually all of our gaming peers.

2019 is now in the past, however, and what matters most is what we deliver in the future. We can assure you—our shareholders—that we are focused on delivering a combination of organic growth and greenfield opportunities along with strategic acquisitions at reasonable multiples with the intent of growing our adjusted EBITDA and free cash flow while continuing to maintain a responsible level of debt.

We plan to execute the following strategies:

- Continue to protect and build our iconic asset—the Kentucky Derby—and Derby week at Churchill Downs Racetrack. The new hotel and HRM facility is planned to open in the 4th quarter of 2021;
- Remain focused on growing our TwinSpires business—the most profitable online wagering platform in the country—and building a long-term profitable sports betting and iGaming business;
- Finish the construction of our Oak Grove Racing and Gaming facility which is planned to open in September 2020 and begin the rebuild of Turfway Park which is planned to open in 2021;
- And, last, focus on operating efficiently and growing through smart capital investments our existing regional gaming assets as well as acquiring strategic gaming properties at reasonable multiples.

We will always remain thoughtful stewards of our shareholders’ capital and intend to continue to invest capital to create long-term shareholder value while maintaining capacity for dividend growth and opportunistic share repurchases. We believe we have a significant amount of growth in our pipeline and we—along with all of our employees—are excited about the potential opportunities to grow our company over the next three to four years.



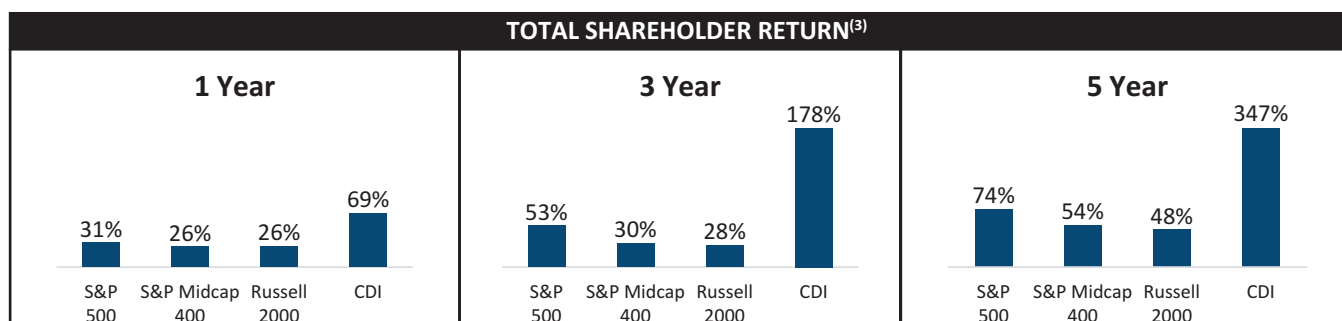
R. Alex Rankin
Chairman of the Board



William C. Carstanjen
Chief Executive Officer

FINANCIAL HIGHLIGHTS

\$ in millions, except per share data	Year Ended December 31,		
	2017	2018	2019
Consolidated Financial Results			
Net revenue	\$ 883	\$1,009	\$ 1,330
Operating income	\$ 146	\$ 189	\$ 216
Net income from continuing operations	\$ 122	\$ 183	\$ 140
Diluted EPS from continuing operations	\$ 2.55	\$ 4.39	\$ 3.44
Adjusted EBITDA ¹	\$286.2	\$328.8	\$ 451.4
Consolidated Balance Sheet			
Total Assets	\$2,359	\$1,725	\$ 2,551
Total Debt	\$1,129	\$ 884	\$ 1,474
Total Liabilities	\$1,719	\$1,252	\$ 2,040
Shareholders' Equity	\$ 640	\$ 473	\$ 511
Cash Flow and Liquidity			
Cash Flows from Operating Activities	\$ 215	\$ 198	\$ 290
Capital Maintenance Expenditures	\$ 33	\$ 30	\$ 48
Net Leverage Ratio ²	2.9x	2.3x	3.1x
Shareholder Data:			
Dividends Declared per Common Share	\$0.507	\$0.543	\$ 0.581
Common Stock Share Repurchases	\$ 180	\$ 532	\$ 93
Year-End Closing Stock Prices	\$77.57	\$81.31	\$137.20
Equity Market Capitalization	\$3,586	\$3,285	\$ 5,446
Total Capitalization	\$4,715	\$4,169	\$ 6,920







- 1 Please refer to "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on February 26, 2020 for a discussion of Adjusted EBITDA, a non-GAAP financial measure, and a reconciliation to the most directly comparable GAAP measure.
- 2 Net leverage ratio is the ratio of total debt (less cash) to Adjusted EBITDA, which includes Big Fish Games for the 2017 calculation.
- 3 Total Shareholder Return ("TSR") assumes dividends are reinvested. One year TSR is calculated from December 31, 2018 to December 31, 2019. Three year TSR is calculated from December 31, 2016 to December 31, 2019. Five year TSR is calculated from December 31, 2014 to December 31, 2019.

CHURCHILL DOWNS INCORPORATED

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

DATE AND TIME:	Tuesday, April 21, 2020, at 9:00 a.m. Eastern Time
PLACE:	Nemacolin Woodlands Resort 1001 Lafayette Drive Farmington, Pennsylvania 15437
AGENDA:	<ol style="list-style-type: none">I. To elect the three (3) Class III Directors identified in this Proxy Statement for a term of three (3) years (Proposal No. 1);II. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2020 (Proposal No. 2);III. To conduct an advisory vote to approve executive compensation (Proposal No. 3); andIV. To transact such other business as may properly come before the meeting or any adjournment thereof, including matters incident to its conduct.
RECORD DATE:	The close of business on March 2, 2020, 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.
VOTING:	<p>Shareholders who do not expect to attend the Annual Meeting in person are urged to vote by telephone or over the Internet, or by requesting and promptly signing and returning a proxy card, as more fully described in the Notice of Internet Availability of Proxy Materials.</p> <p>   </p>

March 10, 2020

By Order of the Board of Directors.

BRADLEY K. BLACKWELL
*Senior Vice President,
General Counsel and Secretary*

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 21, 2020

The Company's Proxy Statement for the 2020 Annual Meeting of Shareholders and the Annual Report to Shareholders for the fiscal year ended December 31, 2019 are available at
<http://www.churchilldownsincorporated.com/proxy>

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PROXY STATEMENT

Annual Meeting of Shareholders to be held on April 21, 2020

The Board of Directors (the “Board of Directors” or “Board”) of Churchill Downs Incorporated (“Company,” “CDI,” or “CHDN”) is soliciting proxies to be voted at the 2020 Annual Meeting of Shareholders to be held on **Tuesday, April 21, 2020, at 9:00 a.m. Eastern Time (the “Annual Meeting”), at Nemaocolin Woodlands Resort, 1001 Lafayette Drive, Farmington, Pennsylvania 15437**, and any adjournments thereof. 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 Notice of Internet Availability of Proxy Materials (the “Notice”) was first mailed on or about March 10, 2020.

Voting Rights

Only holders of record of the Company’s Common Stock, no par value (“Common Stock”), on March 2, 2020 (the “Record Date”), are entitled to notice of and to vote at the Annual Meeting. On that date, 39,559,648 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. Abstentions or “withhold” votes, as applicable, 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 or “withhold” votes and broker non-votes are counted for purposes of determining whether a quorum exists. For more information regarding broker non-votes, see “*What is a broker non-vote?*” below.

Whether or not you plan to attend the Annual Meeting in person, to ensure the presence of a quorum, please vote over the Internet or by telephone as instructed in these materials as promptly as possible. If a shareholder executes and returns a proxy card, but does not specify otherwise, the shares represented by the shareholder’s proxy will be voted: (i) for the election of each of the three director nominees listed below under “Election of Directors”; (ii) for the ratification of the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2020; (iii) 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 Securities and Exchange Commission (the “SEC”); and (iv) 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

When and where is our Annual Meeting?

We will hold our Annual Meeting on Tuesday, April 21, 2020 at 9:00 a.m. Eastern Time at Nemaocolin Woodlands Resort, 1001 Lafayette Drive, Farmington, Pennsylvania 15437.

How are we distributing our proxy materials?

In accordance with the “notice and access” rules and regulations adopted by the SEC, instead of mailing a printed copy of our proxy materials to each shareholder of record (the “full set delivery” option), we are furnishing proxy materials to our shareholders over the Internet (the “notice only” option). 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. We believe the “notice only” process expedites shareholders’ receipt of proxy materials and reduces the costs and environmental impact of our Annual Meeting. The Company will bear the entire cost of the solicitation.

On March 10, 2020, we began mailing a Notice to our shareholders containing instructions on how to access this Proxy Statement and our 2019 Annual Report on Form 10-K and vote online, as well as instructions on how to receive paper copies of these documents for shareholders who so select. This Proxy Statement and the 2019 Annual Report on Form 10-K 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 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 the Record Date (Monday, March 2, 2020). On that date, 39,559,648 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.

How many votes must be present to hold the Annual Meeting?

We must have a “quorum” to conduct the Annual Meeting. A majority of the outstanding shares of Common Stock entitled to vote, represented in person or by proxy, shall constitute a quorum. Once a share is represented for any purpose at the Annual Meeting, it will be deemed present for quorum purposes for the remainder of the Annual Meeting and for any adjournment of the Annual Meeting, unless a new record date must be set for the adjourned meeting.

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. Only CHDN shareholders of record as of the close of business on the Record Date will be permitted to attend the Annual Meeting. 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?

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

1. To elect the three (3) Class III Directors identified in this Proxy Statement for a term of three (3) years (Proposal No. 1);
2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2020 (Proposal No. 2); and
3. To conduct an advisory vote to approve the executive compensation of the Company’s named executive officers as disclosed in this Proxy Statement (Proposal No. 3).

You may also vote on any other business as may properly come before the Annual Meeting or any adjournment thereof, including matters incident to the Annual 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 three (3) director nominees identified in this Proxy Statement under "Election of Directors" to the Board of Directors.
2. **"FOR"** the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2020.
3. **"FOR"** the proposal to approve, on a non-binding advisory basis, the executive compensation of the Company's named executive officers as disclosed in this Proxy Statement.

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.proxypush.com/CHDN. You may submit a proxy by Internet 24 hours a day. To be valid, your proxy by Internet must be received by the Annual Meeting. When you access the website, follow the instructions to create an electronic voting instruction form.
- **By Submitting a Proxy by Telephone.** To submit a proxy using the telephone, call 1-866-284-6863 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 must be received by the Annual Meeting.
- **By Submitting a Proxy by Mail.** If you have requested and received a proxy card by mail, mark your proxy card, sign and date it, and return it in the prepaid envelope that was provided or return it to: Proxy Tabulator for Churchill Downs Incorporated, P.O. Box 8016, Cary, North Carolina 27512-9903. To be valid, your proxy must be received by the Annual Meeting.
- **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 also obtain and bring to the Annual Meeting a legal proxy and an account statement or other acceptable evidence of ownership of CHDN Common Stock as of the close of business on the Record Date, as described above under "What do I need to attend, and vote at, 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

- Submitting in a timely manner a new proxy through the Internet or by telephone that is received prior to the Annual Meeting;
- Requesting, executing and mailing a later-dated proxy card that is received prior to the Annual Meeting; or
- 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 the Annual Meeting;
- 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 11:59 p.m., Eastern Time, on April 20, 2020; or
- Voting in person at the Annual Meeting.

What is a broker non-vote?

Brokers, banks or other nominees holding shares on behalf of a beneficial owner may vote those shares in their discretion on certain “routine” matters even if they do not receive timely voting instructions from the beneficial owner. With respect to “non-routine” matters, the broker, bank or other nominee is not permitted to vote shares for a beneficial owner without timely received voting instructions. The only routine matter to be presented at the Annual Meeting is the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2020. The remaining proposals to be presented at the Annual Meeting are considered non-routine.

A broker non-vote occurs when a broker, bank or other nominee does not vote on a non-routine matter because the beneficial owner of such shares has not provided voting instructions with regard to such matter. If a broker, bank or other nominee exercises its discretionary voting authority on the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2020, such shares will be considered present at the Annual Meeting for quorum purposes and broker non-votes will occur as to each of the other proposals presented at the Annual Meeting. Broker non-votes will have no impact on the voting results of the election of directors or the proposal to approve, on a non-binding advisory basis, the executive compensation of the Company’s named executive officers as disclosed in this Proxy Statement.

How will my shares be voted if I return a blank proxy card or a blank voting instruction card?

If you are a holder of record of shares of our common stock and you sign and return a proxy card without giving specific voting instructions, your shares will be voted:

1. **“FOR”** each of the three (3) director nominees identified in this Proxy Statement under “Election of Directors” to the Board of Directors.
2. **“FOR”** the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2020.
3. **“FOR”** the proposal to approve, on a non-binding advisory basis, the executive compensation of the Company’s named executive officers as disclosed in this Proxy Statement.

If you hold your shares in street name via a broker, bank or other nominee and return a signed but blank voting instruction card (and do not otherwise provide the broker, bank or other nominee with voting instructions), your shares:

- will be counted as present for purposes of establishing a quorum;
- will be voted in accordance with the broker’s, bank’s or other nominee’s discretion on “routine” matters, which includes only the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2020; and
- will not be counted in connection with the election of directors, the proposal to approve, on a non-binding advisory basis, the executive compensation of the Company’s named executive officers as disclosed in this Proxy Statement, or any other non-routine matters that are properly presented at the Annual Meeting. For each of these proposals, your shares will be treated as “broker non-votes.”

Our Board knows of no matter to be presented at the Annual Meeting other than the proposals described above. If any other matters properly come before the Annual Meeting upon which a vote properly may be taken, shares represented by all proxies received by us on the proxy card will be voted with respect thereto as permitted and in accordance with the judgment of the proxy holders.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information as of the Record Date (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 and director nominee of the Company, each named executive officer (as defined in “Executive Compensation—2019 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 39,559,648 shares of Common Stock outstanding as of the Record Date. 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.

Name of Beneficial Owner	Amount and Nature Of Beneficial Ownership	Percent of Class
BlackRock, Inc. and affiliates 55 East 52nd Street New York, NY 10055	4,461,170 ⁽¹⁾	11.28
The Vanguard Group, Inc. and affiliates 100 Vanguard Blvd. Malvern, PA 19355	3,191,035 ⁽²⁾	8.07
CDI Holdings LLC 845 Larch Avenue Elmhurst, IL 60126	3,000,000 ⁽³⁾	7.58
Ulysses L. Bridgeman, Jr.	19,689 ⁽⁴⁾	*
Robert L. Fealy	54,749 ⁽⁵⁾	0.14
Douglas C. Grissom	5,774 ⁽⁶⁾	*
Daniel P. Harrington	647,857 ⁽⁷⁾	1.64
Karole F. Lloyd	11,220 ⁽⁸⁾	*
R. Alex Rankin	40,447 ⁽⁹⁾	0.10
Paul C. Varga	0	0
William C. Carstanjen	534,433 ⁽¹⁰⁾	1.35
William E. Mudd	291,692 ⁽¹¹⁾	0.74
Marcia A. Dall	38,990 ⁽¹²⁾	0.10
Austin W. Miller	46,925 ⁽¹³⁾	0.12
11 Directors and Executive Officers as a Group	1,691,776 ⁽¹⁴⁾	4.28

* Less than 0.1%.

- (1) Based on a Schedule 13G/A filed with the SEC on February 4, 2020, reporting the beneficial ownership of BlackRock, Inc. and its subsidiaries specified therein (“BlackRock”) as of December 31, 2019. As reported in such filing, BlackRock has sole voting power over 4,354,112 shares, sole dispositive power over 4,461,170 shares and no shared voting or dispositive power over any shares.
- (2) Based on a Schedule 13G/A filed with the SEC on February 12, 2020, reporting the beneficial ownership of The Vanguard Group and its subsidiaries specified therein (“Vanguard”) as of December 31, 2019. As reported in such filing, Vanguard has sole voting power over 73,848 shares, sole dispositive power over 3,116,009 shares, shared voting power over 5,517 shares and shared dispositive power over 75,026 shares.
- (3) CDI Holdings LLC (“CDI Holdings”) is a wholly-owned subsidiary of The Duchossois Group, Inc. These shares are also beneficially owned by Mr. Richard L. Duchossois. CDI Holdings has sole voting and dispositive power over all 3,000,000 shares.
- (4) Includes 5,413 deferred stock units, which Mr. Bridgeman has elected to defer pursuant to the Company’s deferred compensation plan. Also includes 14,276 restricted stock units awarded by the Company for his board service, over which Mr. Bridgeman has neither voting nor dispositive power until immediately following his resignation or retirement from the Board.

- (5) Includes 35,001 deferred stock units, which Mr. Fealy has elected to defer pursuant to the Company's deferred compensation plan. Also includes 19,747 restricted stock units awarded by the Company for his board service, over which Mr. Fealy has neither voting nor dispositive power until immediately following his resignation or retirement from the Board.
- (6) Includes 2,553 deferred stock units, which Mr. Grissom has elected to defer pursuant to the Company's deferred compensation plan. Also includes 3,220 restricted stock units awarded by the Company for his board service, over which Mr. Grissom has neither voting nor dispositive power until immediately following his resignation or retirement from the Board.
- (7) Mr. Harrington shares voting and investment power with respect to 594,900 shares held by TVI Corp. He specifically disclaims beneficial ownership of these shares. Figure illustrated includes 33,209 deferred stock units, which Mr. Harrington has elected to defer pursuant to the Company's deferred compensation plan. Also includes 19,747 restricted stock units awarded by the Company for his board service, over which Mr. Harrington has neither voting nor dispositive power until immediately following his resignation or retirement from the Board. Figure illustrated does not include 97,602 shares held by the Veale Foundation. Mr. Harrington is a member of the Board of Trustees of the Veale Foundation, but Mr. Harrington disclaims beneficial ownership of those shares.
- (8) Includes 3,220 restricted stock units awarded by the Company for her board service, over which Ms. Lloyd has neither voting nor dispositive power until immediately following her resignation or retirement from the Board.
- (9) Includes 19,747 restricted stock units awarded by the Company for his board service, over which Mr. Rankin has neither voting nor dispositive power until immediately following his resignation or retirement from the Board.
- (10) Excludes 98,803 restricted stock units, tied to Mr. Carstanjen's continued service to the Company, awarded under the Company's 2016 Omnibus Stock Incentive Plan over which Mr. Carstanjen has neither voting nor dispositive power until December 31, 2020, at which time 26,006 units shall vest without restriction; December 31, 2021, at which time 17,222 units shall vest without restriction; December 31, 2022, at which time 6,864 units shall vest without restriction; October 30, 2022, at which time 12,177 units shall vest without restriction; October 30, 2023, at which time 12,177 units shall vest without restriction; October 30, 2024, at which time 12,177 units shall vest without restriction; and October 30, 2025, at which time the remaining 12,180 units shall vest without restriction. Excludes 189,158 performance stock units ("PSUs") awarded under the Company's executive long term incentive compensation plan over which Mr. Carstanjen has neither voting nor dispositive power until December 31, 2020, at which time the performance period ends with regard to 27,852 PSUs; December 31, 2021, at which time the performance period ends with regard to 33,719 PSUs, and October 30, 2021, at which time the performance period ends with regard to the remaining 127,587 PSUs, which shall thereafter vest based upon Mr. Carstanjen's continued service to the Company according to the following schedule: 31,897 units on October 30th of each of 2022, 2023, and 2024, respectively, and 31,896 units on October 30, 2025. Further excludes all PSUs to be awarded to Mr. Carstanjen under the Company's executive long-term incentive compensation plan for the performance period of January 1, 2020 through December 31, 2022.
- (11) Excludes 52,020 restricted stock units, tied to Mr. Mudd's continued service to the Company, awarded under the Company's 2016 Omnibus Stock Incentive Plan over which Mr. Mudd has neither voting nor dispositive power until December 31, 2020, at which time 10,947 units shall vest without restriction; December 31, 2021, at which time 7,509 units shall vest without restriction; December 31, 2022, at which time 3,120 units shall vest without restriction; October 30, 2022, at which time 7,611 units shall vest without restriction; October 30, 2023, at which time 7,611 units shall vest without restriction; October 30, 2024, at which time 7,611 units shall vest without restriction; and October 30, 2025, at which time the remaining 7,611 units shall vest without restriction. Excludes 104,930 PSUs awarded under the Company's executive long term incentive compensation plan over which Mr. Mudd has neither voting nor dispositive power until December 31, 2020, at which time the performance period ends with regard to 10,899 PSUs; December 31, 2021, at which time the performance period ends with regard to 14,288 PSUs, and October 30, 2021, at which time the performance period ends with regard to the remaining 79,743 PSUs, which shall thereafter vest based upon Mr. Mudd's continued service to the Company according to the following schedule: 19,936 units on October 30th of each of 2022, 2023, and 2024, respectively; and 19,935 units on October 30, 2025. Further excludes all PSUs to be awarded to Mr. Mudd under the Company's executive long term incentive compensation plan for the performance period of January 1, 2020 through December 31, 2022.
- (12) Excludes 10,023 restricted stock units, tied to Ms. Dall's continued service to the Company, awarded under the Company's 2016 Omnibus Stock Incentive Plan over which Ms. Dall has neither voting nor dispositive power until December 31, 2020, at which time 5,387 units shall vest without restriction; December 31, 2021, at which time 3,284 units shall vest without restriction; and December 31, 2022, at which time the remaining 1,352 units shall vest without restriction. Excludes 12,947 PSUs awarded under the Company's executive long term incentive compensation plan over which Ms. Dall has neither voting nor dispositive power until December 31, 2020, at which time the performance period ends with regard to 6,660 PSUs; and December 31, 2021, at which time the performance period ends with regard to the remaining 6,287 PSUs. Further excludes all PSUs to be awarded to Ms. Dall under the Company's executive long-term incentive compensation plan for the performance period of January 1, 2020 through December 31, 2022.

- (13) Excludes 8,271 restricted stock units, tied to Mr. Miller’s continued service to the Company, awarded under the Company’s 2016 Omnibus Stock Incentive Plan over which Mr. Miller has neither voting nor dispositive power until December 31, 2020, at which time 4,523 units shall vest without restriction; December 31, 2021, at which time 2,708 units shall vest without restriction; and December 31, 2022, at which time the remaining 1,040 units shall vest without restriction. Excludes 7,062 PSUs awarded under the Company’s executive long-term incentive compensation plan over which Mr. Miller has neither voting nor dispositive power until December 31, 2020, at which time the performance period ends with regard to 3,633 PSUs; and December 31, 2021, at which time the performance period ends with regard to the remaining 3,429 PSUs. Further excludes all PSUs to be awarded to Mr. Miller under the Company’s executive long-term incentive compensation plan for the performance period of January 1, 2020 through December 31, 2022.
- (14) See table on page 8 and “Information about our Executive Officers”.

Information about our Executive Officers

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
William C. Carstanjen⁽¹⁾ Age: 52	Chief Executive Officer since August 2014; President and Chief Operating Officer from March 2011 to August 2014; 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
William E. Mudd⁽²⁾ Age: 48	President and Chief Operating Officer since October 2015; President and Chief Financial Officer from August 2014 to October 2015; Executive Vice President and Chief Financial Officer from October 2007 to August 2014
Marcia A. Dall⁽³⁾ Age: 56	Executive Vice President and Chief Financial Officer since October 2015
Austin W. Miller⁽⁴⁾ Age: 56	Senior Vice President, Gaming Operations since August 2013; President of Calder Casino & Race Course from June 2010 to August 2013; President of Fair Grounds Race Course & Slots from October 2008 to June 2010; Vice President and General Manager of Fair Grounds Race Course & Slots from May 2007 to October 2008

- (1) Prior to joining the Company, Mr. Carstanjen was employed at General Electric Company ("GE"). 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. Carstanjen began his career as an attorney with Cravath, Swaine & Moore LLP in New York City, specializing in mergers and acquisitions and other corporate transactions.
- (2) Prior to joining the Company, Mr. Mudd was employed at GE. 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 at GE FANUC in Charlottesville, Virginia.
- (3) Prior to joining the Company, Ms. Dall was employed at Erie Indemnity Company, a company providing sales, underwriting and administrative services to Erie Insurance Exchange, where from March 2009 through October 2015, she served as Executive Vice President and Chief Financial Officer. From January 2008 until March 2009, she served as Chief Financial Officer of the Healthcare division at CIGNA Corporation. Prior to CIGNA, Ms. Dall was a corporate officer and the Chief Financial Officer for the International and U.S. Mortgage Insurance segments of Genworth Financial, a former subsidiary of GE. Ms. Dall began her career in 1985 in the Financial Management Program at GE and held various leadership roles both in finance and operations over her twenty-plus year tenure with GE. Ms. Dall is a Certified Public Accountant.
- (4) Prior to joining the Company, Mr. Miller was employed by Harrah's Entertainment, Caesars Entertainment, and Grand Casinos from 1992 to 2007. From 2005 to 2007, he served as the Vice President of Gaming Operations for Harrah's New Orleans. From 2001 to 2005, he served in a number of senior executive roles including Senior Vice President of Operations for Grand Casino Gulfport. From 2000 to 2001, he served as the Vice President of Guest Services for Grand Casino Tunica. From 1996 to 2000, he served as the Director of Guest Services for Grand Casino Biloxi. From 1995 to 1996, he served as the Regional Director of the Grand Advantage Player's Club for Grand Casino Gulfport & Grand Casino Biloxi. From 1992 to 1995, he served as Corporate Marketing Representative and Director of Business Relations for Grand Casinos Incorporated. Miller began his gaming career in 1983.

ELECTION OF DIRECTORS (Proposal No. 1)

At the Annual Meeting, shareholders will vote to elect the three (3) persons identified below to serve in Class III of the Board of Directors and to hold office for a term of three (3) years expiring at the 2023 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 (3) year term. Currently the Board of Directors is comprised of eight (8) directors, with three (3) directors in Class I, two (2) directors in Class II and three (3) directors in Class III.

The Nominating and Governance Committee has recommended, and the Board has approved, the nomination of the three (3) persons named in the following table for election as directors in Class III. The nominees currently serve as members of Class III and have agreed to serve if re-elected.

Directors are elected by a plurality of votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. 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 and director nominees 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 directors in Class III named below.

Election of Directors

The following table sets forth information relating to the Class III director nominees of the Company who are proposed to the shareholders for election to serve as directors for terms of three (3) years, expiring at the 2023 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.

Class III—Nominated for Terms Expiring in 2023

<p>Robert L. Fealy Age: 68 Director since 2000</p>	<p>Mr. Fealy currently serves as Managing Director of Limerick Investments, LLC, an investment firm, and co-founder and President of Aluminate, Inc., which provides data analytics solutions to universities, colleges and other not-for-profit institutions. He retired effective June 30, 2014 as President, Chief Operating Officer and Director of The Duchossois Group, Inc. (a family owned company which held 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., 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 had over 5,000 employees worldwide with operations located in over 30 countries as well as proven capabilities in strategic business planning in a variety of industries. Prior to Mr. Fealy’s employment with Duchossois, he was a senior executive at Cummins Inc., serving in various roles including Vice President-Treasurer and Vice President-Global Business Strategy. Mr. Fealy currently holds the following leadership positions with other entities: Board Director, Panduit, Inc.; Past Chairman and Founding Board Member, Illinois Venture Capital Association; Entrepreneur Partner and Advisor, Chicago Ventures; Trustee and Past Chairman of the Board of Trustees, University of Cincinnati Foundation; Member, University of Cincinnati Business Advisory Council; Board Member and past Chairman, Chicago Children’s Choir; Trustee of The Morton Arboretum; Partner, Social Venture Partners.</p>
<p>Douglas C. Grissom Age: 52 Director since 2017</p>	<p>Mr. Grissom serves as the Managing Director and Co-Head of Madison Dearborn Partners’ (“MDP”) Business & Government Software and Services team. Prior to joining MDP, a Chicago-based private equity firm focused on buyout and growth equity investments, he was with Bain Capital in private equity, McKinsey & Company and Goldman Sachs. Mr. Grissom currently serves on the Boards of Directors of BlueCat Networks, CoVant Technologies, Fleet Complete, Lightspeed Systems, and LinQuest Corporation. In addition, he was formerly on the Boards of Directors of LGS Innovations, @stake, Aderant, Asurion, Cbeyond, Fieldglass, Great Lakes Dredge and Dock Corporation, Intelsat, and Neoworld. Outside of MDP, he is a Board Member at Amherst College, the Harvard Business School Fund Council, the Lincoln Park Zoo, METROsquash, the Museum of Science and Industry, and the University of Chicago Laboratory Schools. Mr. Grissom has extensive financial and board experience within a variety of industries that qualifies him as a member of the Board of Directors.</p>
<p>Daniel P. Harrington Age: 64 Director since 1998</p>	<p>Mr. Harrington serves as the President and Chief Executive Officer of HTV Industries, Inc. (a private holding company with diversified business interests that include manufacturing, distribution, technology 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. Mr. Harrington also serves as a Trustee of The Veale Foundation. In addition, Mr. Harrington has served as a Director of First Guaranty Bank, First State Financial Corporation, and Portec Rail Products, Inc. (serving on its Audit and Compensation Committees).</p>

- (1) Summaries above include 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 present or former directorships or positions considered significant by them.

The Board of Directors has no reason to believe that any of 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 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.

Class I—Terms Expiring in 2021

William C. Carstanjen

Age: 52
Director since 2015

Mr. Carstanjen was named the Company's twelfth Chief Executive Officer in August 2014 and appointed to the Board of Directors in July 2015. Mr. Carstanjen served as CDI's President and Chief Operating Officer (2011-2014), CDI's Chief Operating Officer (2009-2011) and as Executive Vice President, General Counsel and Chief Development Officer for the Company (2005-2009). Mr. Carstanjen joined CDI in July 2005 after serving as an executive with General Electric Company. Mr. Carstanjen began his career as an attorney with Cravath, Swaine & Moore LLP in New York City, specializing in mergers and acquisitions, corporate finance and corporate governance. Mr. Carstanjen brings a wealth of experience and knowledge to his leadership role at CDI. Throughout his tenure, Mr. Carstanjen has led CDI's diversification strategy into online wagering and regional casino gaming, as well as led the growth of the Kentucky Oaks and Kentucky Derby events. Mr. Carstanjen is a Director of Glenview Trust Company.

Karole F. Lloyd

Age: 61
Director since 2018

Mrs. Lloyd was elected to the Board of Directors in 2018 and serves as Chair of the Audit Committee. Mrs. Lloyd has served on the Board of Directors of Aflac Inc. since January 2017 and currently serves as the Chair of the Audit and Risk Committee and a member of the Executive Committee and the Finance and Investment Committee of the Aflac Inc., Board of Directors. Ms. Lloyd is the retired Vice Chair and Southeast Regional Managing Partner for Ernst & Young LLP ("EY"). From 2009 through 2016, she served as a member of the US Executive Board, Americas Operating Executive and the Global Practice Group for EY. In her 37-year career at EY, Ms. Lloyd served many of EY's highest profile clients through mergers, IPOs, acquisitions, divestitures, and across numerous industries including banking, insurance, consumer products, transportation, real estate, manufacturing, and retail. Ms. Lloyd is active in the Atlanta community, working with the Metro Atlanta Chamber of Commerce and The Rotary Club of Atlanta. She was previously the Chair of the Atlanta Symphony Orchestra Board of Directors. Ms. Lloyd is active in supporting many colleges and universities throughout the southeast, including serving on the President's Advisory Council and the Board of Visitors at the University of Alabama. Mrs. Lloyd qualifies as an Audit Committee Financial Expert, which makes her well suited for her current role as the Chair of the Company's Audit Committee and as a member of the Board.

Paul C. Varga

Age: 56
Director since 2020

Mr. Varga was appointed to the Board of Directors on February 25, 2020. Mr. Varga is the former Chairman and Chief Executive Officer of Brown-Forman Corporation, a public global spirits and wine company. Mr. Varga served as Chairman and Chief Executive Officer of Brown-Forman Corporation from August 2007 until his retirement in December 2018. He served as President and Chief Executive Officer of Brown-Forman Beverages (a division of Brown-Forman Corporation) from 2003 to 2005, and as Global Chief Marketing Officer for Brown-Forman Spirits from 2000 to 2003. In addition to Mr. Varga's many years of leadership experience in the role of Chief Executive Officer and as a public company board member, he also has considerable expertise and experience in corporate finance, strategy, building brand awareness, product development, marketing, distribution and sales. Mr. Varga currently serves on the Board of Directors of Macy's, Inc. as Chair of the Compensation and Management Development Committee and as a member of the Finance Committee. He previously served on the Board of Directors of Brown-Forman Corporation from 2003 until July 2019.

- (1) Summaries above include 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 present or former directorships or positions considered significant by them.

Class II—Terms Expiring in 2022

Ulysses L. Bridgeman, Jr.

Age: 66
Director since 2012

Mr. Bridgeman is the owner and chief executive officer of Heartland Coca-Cola Bottling Company, LLC (“Heartland”), which owns and operates a Coca-Cola production and manufacturing facility in Lenexa, Kansas and seventeen Coca-Cola distribution facilities across various Midwestern states, including Kansas, Missouri, and Illinois. Prior to his February 2017 acquisition of Heartland, Mr. Bridgeman was the owner and chief executive officer of various companies operating over 450 restaurants in 20 states, including 263 Wendy’s restaurants and 123 Chili’s restaurants. From 1975 to 1983, and from 1986 to 1987, Mr. Bridgeman played professional basketball with the Milwaukee Bucks, and from 1983 to 1986, he played for the Los Angeles Clippers. Mr. Bridgeman currently serves on the Board of Directors of Meijer, Inc., the Naismith Basketball Hall of Fame, Simmons College and the West End School. He is a former Director of the James Graham Brown Foundation and served as past chairman of the Board of Trustees of the University of Louisville. Mr. Bridgeman’s current role as a CEO and extensive leadership experience make him ideally qualified as a member of the Board.

R. Alex Rankin

Age: 64
Director since 2008

Mr. Rankin is the Chairman of the Board of Sterling G. Thompson Company, LLC (a private insurance agency and broker), and the President of Upson Downs Farm, Inc. (a thoroughbred breeding and racing operation). He is also Vice Chairman and Director of Glenview Trust Company and a member of The Jockey Club. Mr. Rankin is a Trustee and former 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 business of thoroughbred horseracing, qualify Mr. Rankin as a member of the Board of Directors.

- (1) Except as noted with respect to Mr. Bridgeman, there has been no change in principal occupation or employment during the past five years.
- (2) Summaries above include 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 nominees, other present or former directorships or positions considered significant by them.

Retirement Age Policy

The Company has a mandatory retirement age policy in the Corporate Governance Guidelines 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. 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. No director nominees in Class III will have met the mandatory retirement age as of the date of the Annual Meeting.

Emeritus Directors

Pursuant to our Amended and Restated Bylaws, each director shall become a “Director Emeritus” upon the expiration of his or her current term following the date the director may no longer be qualified for election as a director due to age pursuant to our retirement age policy, provided the effective date of such mandatory retirement has not been waived. 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 Emeriti Directors are Charles W. Bidwill, Jr., Catesby W. Clay, Craig J. Duchossois, Richard L. Duchossois, J. David Grissom, G. Watts Humphrey, Jr., James F. McDonald, Thomas H. Meeker, Carl F. Pollard, and Darrell R. Wells.

Director Compensation for Fiscal Year Ended December 31, 2019

During 2019, each non-employee director of the Board of Directors received the compensation set forth below (all fees shown are annual fees, except for meeting fees), which, other than the retainer fee and the stock award, did not change from the compensation levels set for 2018. For 2019, the annual retainer fee was increased from \$60,000 to \$75,000 and the annual stock award grant value was increased from \$125,000 to \$155,000 after considering market data and the input of the Compensation Committee's independent compensation consultant.

	Retainer Fee (\$) ⁽¹⁾	Meeting Fees (\$) ⁽²⁾	Stock Awards (\$) ⁽³⁾	Chairman Fee (\$)	Non-Chairman Fee (\$)
Board of Directors	75,000	2,000	155,000	150,000 ⁽⁴⁾	
Compensation Committee		2,000		25,000	12,500
Nominating and Governance Committee		2,000		20,000	10,000
Audit Committee		2,000		35,000	15,000

- (1) Retainer fee is paid in arrears, in equal quarterly installments.
- (2) Directors who do not reside in Louisville, Kentucky may request reimbursement for travel expenses to and from Board and committee meetings.
- (3) Each non-employee director receives a grant of restricted stock units ("RSUs"), with an aggregate grant date fair value of \$155,000.
- (4) For the non-employee Chairman of the Board of Directors.

In 2019, we provided the following compensation to our non-employee directors. Mr. Carstanjen, our Chief Executive Officer ("CEO"), is not separately compensated for his service on our Board. Please see the 2019 Summary Compensation Table for a summary of the compensation paid to our CEO with respect to 2019.

Name	Fees earned or paid in cash (\$)	Stock Awards (\$) ⁽²⁾	Total (\$)
Ulysses L. Bridgeman, Jr.	118,250 ⁽¹⁾	155,000	273,250
Richard L. Duchossois ⁽³⁾	28,871	—	28,871
Robert L. Fealy	125,750 ⁽¹⁾	155,000	280,750
Douglas C. Grissom	115,750 ⁽¹⁾	155,000	270,750
Daniel P. Harrington	141,599 ⁽¹⁾	155,000	296,599
Karole F. Lloyd	126,854	155,000	281,854
R. Alex Rankin	226,495	155,000	381,495
Paul C. Varga ⁽⁴⁾	0	0	0

- (1) 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 all or part of 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. On December 13, 2019, the plan was amended so that effective January 1, 2020, director fees that are payable after that date and deferred may only be notionally invested in Company common stock and payout options are limited to either a single lump sum payment or equal annual installments over five or ten years. In 2019, Mr. Grissom, Mr. Fealy and Mr. Harrington deferred all of their 2019 directors' fees into a deferred share account under the plan, while Mr. Bridgeman deferred 50% of his 2019 directors' fees into a deferred share account under the plan. As of December 31, 2019, Mr. Bridgeman had 5,390 deferred shares, Mr. Fealy had 34,851 deferred shares, Mr. Grissom had 2,542 deferred shares, and Mr. Harrington had 33,067 deferred shares under the plan. As of December 31, 2019, Mr. Duchossois had no deferred shares under the plan.

- (2) On April 23, 2019, each non-employee director (with the exception of Mr. Richard L. Duchossois, who did not stand for re-election as a member of the Board of Directors at the 2019 annual meeting of shareholders on April 23, 2019) received a grant of RSUs, valued in the amount of \$155,000, calculated based upon the closing price of a share of Common Stock on the date of grant. The RSUs vest one year from the date of grant, subject to the director's continued service through the vesting date. At the time a director ceases being a director of the Company, the Company will issue one share of Common Stock for each vested RSU held by such director. As of December 31, 2019, Mr. Bridgeman had 14,215 RSUs, Mr. Fealy had 19,663 RSUs, Mr. Grissom had 3,207 RSUs, Mr. Harrington had 19,663 RSUs, Ms. Lloyd had 3,207 RSUs, and Mr. Rankin had 19,663 RSUs.
- (3) Mr. Duchossois did not stand for re-election as a member of the Board of Directors at the annual meeting of shareholders on April 23, 2019.
- (4) Mr. Varga joined the Board in February 2020 and therefore received no compensation in 2019.

Director Stock Ownership Guidelines

As memorialized in the Corporate Governance Guidelines, the Board expects all directors to display confidence in the Company by ownership and retention of a meaningful amount of the Company's Common Stock. Pursuant to the Company's insider trading policy, all directors are subject to the Company's anti-hedging policy, which prohibits hedging and monetization transactions with respect to the Company's Common Stock. As a result, each director is expected to own shares with a fair market value equal to five (5) times the director's annual retainer. Each director appointed or elected to the Board has five (5) years from the date of appointment or election to the Board to meet this requirement. Compliance is measured at the five (5) year anniversary date of the director's appointment or election. 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. The chart below shows each current director's compliance with the ownership guidelines calculated as of December 31, 2019, other than with respect to Mr. Carstanjen, who is subject to maintaining holdings of the Company's Common Stock equal to at least six (6) times his base annual salary, pursuant to the Key Executive Stock Ownership and Retention Guidelines, as further described in the "Executive Stock Ownership Guidelines" section below. Furthermore, deferred shares acquired by directors under the Churchill Downs Incorporated 2005 Deferred Compensation Plan and RSUs granted as director compensation are included for purposes of measuring compliance with the Company's share ownership guidelines. In addition, the directors are subject to the same anti-hedging policy as the Company's officers and employees.

Director	Ownership Guidelines ⁽¹⁾	Shares Owned ⁽²⁾	Value of Shares ⁽³⁾	Met Guidelines
Ulysses L. Bridgeman, Jr.	5x	19,605	\$ 2,689,799	✓
Robert L. Fealy	5x	54,514	\$ 7,479,322	✓
Douglas C. Grissom	5x	5,749	\$ 788,741	✓
Daniel P. Harrington	5x	647,630	\$88,854,777	✓
Karole F. Lloyd	5x	11,207	\$ 1,537,543	✓
R. Alex Rankin	5x	39,363	\$ 5,400,549	✓
Paul C. Varga	5x	0	\$ 0	*

✓ = Met guidelines.

* = Mr. Varga joined the Board on February 25, 2020 and did not own any shares of Common Stock as of December 31, 2019. Mr. Varga has five years from the date of appointment to the Board to meet the guidelines.

- (1) Guidelines adopted per the Company's Board of Directors.
- (2) Calculated as of December 31, 2019 and represents shares of Common Stock owned outright, hypothetical shares deferred per the Company's 2005 Deferred Compensation Plan, and RSUs issued for board service.
- (3) Fair market value based on closing price of our Common Stock of \$137.20 as of December 31, 2019.

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 compared 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 SEC 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 (along with any amendments or waivers related to the Code of Conduct) are available on our corporate website, <http://www.churchilldownsincorporated.com>, under the "Corporate Governance" subheading under the "Investors" tab.

Shareholder Communications

Shareholders may send communications to the Company's Board of Directors addressed to the Board of Directors or to any individual director 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

R. Alex Rankin is the Chairman of the Board of Directors. The Board continues to deem it advisable to maintain certain aspects of its governance structure to assure effective independent oversight. These governance practices include maintaining executive sessions of the independent directors after each Board meeting, annual performance evaluations of the CEO by the independent directors, and separate roles for the CEO and Chairman of the Board of Directors. Our Corporate Governance Guidelines state that the offices of the Chairman of the Board and CEO may be either combined or separated, in the Board's discretion; provided, that if the Board designates one individual to serve as the Chairman of the Board and the CEO, the Board will then designate an independent director to serve as the Lead Independent Director. The Board is currently led by an independent Chairman, Mr. Rankin. The Board believes that separating the roles of CEO and Chairman of the Board is the most appropriate structure at this time. Separating the roles of CEO and Chairman of the Board ensures that our CEO is able to more exclusively focus on this role. The Board also believes that an independent Chairman of the Board allows for independent oversight of management, increases management accountability, and encourages an objective evaluation of management's performance relative to compensation.

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 is 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.

Board Evaluations

The Board conducts an annual self-evaluation to assist in determining whether it and its committees are functioning effectively. The Nominating and Governance Committee solicits comments from all directors and reports annually to the

Board with an assessment of the Board’s performance and how its committees are functioning. This will be discussed with the full Board following the end of each fiscal year. The assessment focuses on the Board’s contribution to the Company and specifically focuses on areas in which the Board or management believes that the Board could improve.

Board Meetings and Committees

Six (6) meetings of the Board of Directors were held during the last fiscal year. During the fiscal year, all incumbent directors attended at least 75% of their Board and committee meetings for the period for which they served. The Company encourages its directors to attend the annual meeting of shareholders each year. Each of the directors then serving on the Board (other than Mr. Richard L. Duchossois, who did not stand for re-election at the 2019 annual meeting of shareholders on April 23, 2019) attended the Company’s annual meeting on April 23, 2019.

The Board has determined that all of the directors of the Company who served during any part of the last completed fiscal year, and Paul C. Varga, who joined the Board in February 2020, are “independent directors,” as defined under Nasdaq Rule 5605(a)(2), except William C. Carstanjen, due to his position as CEO of the Company. When determining the independence of Mr. Varga, the Board considered that Mr. Varga was formerly the Chairman and Chief Executive Officer of Brown-Forman Corporation, a corporate sponsor of the Kentucky Derby. The Board determined that this former relationship would not interfere with the exercise of Mr. Varga’s independent judgment in carrying out the responsibilities of a director.

As required by the Company’s Corporate Governance Guidelines, the Board of Directors currently has four (4) standing committees: the Executive, Audit, Compensation, and Nominating and Governance Committees. No Director Emeritus serves on any Board committee. The current composition of the committees is illustrated in the table below, along with the number of meetings held in 2019.

Director Name	Board of Directors	Executive Committee	Audit Committee ⁽¹⁾	Compensation Committee ⁽²⁾	Nominating and Governance Committee
Ulysses L. Bridgeman	Member		Member		Member
William C. Carstanjen	Member				
Robert L. Fealy	Member	Member		Member	Chair
Douglas C. Grissom	Member			Member	Member
Daniel P. Harrington	Member	Member	Member	Chair	
Karole F. Lloyd	Member		Chair		Member
R. Alex Rankin	Chair	Chair	★	★	★
Paul C. Varga	Member		Member	Member	
Number of meetings in 2019	6	0	4	4	1

★ = Ex-officio Member

- (1) At the conclusion of the 2019 annual meeting of shareholders, Karole F. Lloyd became Chair of the Audit Committee, with Daniel P. Harrington continuing to serve as a member of the Audit Committee.
- (2) At the conclusion of the 2019 annual meeting of shareholders, Daniel P. Harrington became Chair of the Compensation Committee, with R. Alex Rankin serving as an ex-officio member of the Compensation Committee.

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 Executive Committee does not meet on a regular basis, but instead meets as and when needed.

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. 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 cybersecurity and other risks 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, among others:

- To monitor the performance of the Company's internal audit function;
- To appoint, compensate, retain and oversee the 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;
- To consider the effectiveness of the company's internal control system including information technology security and control;
- 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;
- To conduct an annual performance evaluation of the Audit Committee.

We have a formal enterprise risk management program that falls under the leadership of our executive team with oversight from the Audit Committee. The purpose of this program is to promote risk-intelligent decision making and, in turn, increase the likelihood of achieving our operational objectives. Our Board of Directors is regularly advised of potential organizational risks and supporting mitigating policies.

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) under the Exchange Act.

The Board of Directors has determined that Daniel P. Harrington and Karole F. Lloyd are "audit committee financial experts" as defined by regulations promulgated by the SEC.

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(b)(1) under the Exchange Act. The Board established the Compensation Committee to assist it in discharging the Board's responsibilities relating to compensation of the Company's CEO, each of the Company's other executive officers, and the Company's non-employee directors. The Compensation Committee has overall responsibility for decisions relating to all compensation plans, policies and perquisites as they affect the CEO and other executive officers and may form and delegate authority to subcommittees when it deems appropriate.

The Compensation Committee's responsibilities are as follows, among others:

- To oversee the development and implementation of the Company's compensation policies and programs for executive officers, including the Chairman of the Board and the CEO.
- To establish the annual goals and objectives relevant to the compensation of the Chairman of the Board, the CEO and the executive officers and to present such to the Board annually.
- To evaluate the performance of the Chairman of the Board, the CEO and other executive officers in light of the agreed-upon goals and objectives and to determine and approve the compensation level of the Chairman of the Board and 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 as a result of 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 discussion and analysis, and based on such discussion, make a recommendation to the Board as to whether or not the compensation discussion and analysis should be included in the proxy statement.
- To review and reassess the adequacy of its charter annually and recommend any proposed changes to the Board for approval.
- To conduct an annual performance evaluation of the Compensation Committee.

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 or employees of the Company or were former officers of the Company. None of the members who served on the Compensation Committee at any time during fiscal 2019 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 director or 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 Board of Directors or the Compensation Committee.

Compensation Risk Assessment

The Compensation Committee performed an assessment of whether risks arising from the Company's compensation policies and practices for all employees during 2019, including non-executive officers, are reasonably likely to have a material adverse effect on the Company. Each policy and plan was evaluated based on certain elements of risk, including, but not limited to, (i) the mix of fixed and variable pay, (ii) types of performance metrics, (iii) performance goals and payout curves, (iv) payment timing and adjustments, (v) equity incentives, and (vi) stock ownership requirements and trading policies. Based on this evaluation, an assessment of each plan was created, along with an overall assessment of compensation risk to the Company. After evaluation and discussion, 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 that was amended in 2019, 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 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 and the Company's strategic plans to determine its needs with regard to Board composition and identify candidates with the appropriate skill sets and qualifications. 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. Douglas C. Grissom, who is standing for election by shareholders as a Class III director for the first time, was first identified as candidate by a non-management director.

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, which were amended in 2019, 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.

PROPOSAL TO RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2020 (Proposal No. 2)

On February 25, 2020, 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, 2020. 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. This proposal will be approved if the votes cast favoring the action exceed the votes cast opposing the action. 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 2020.

INDEPENDENT PUBLIC ACCOUNTANTS

Audit Fees

The audit fees incurred by the Company for services provided by PwC (i) for the year ended December 31, 2019, were \$2,331,950 and (ii) for the year ended December 31, 2018, were \$1,718,200. 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 SEC and financial reporting matters.

Audit-Related Fees

During each of 2019 and 2018, the Company incurred \$3,800 and \$21,700, respectively, in fees 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 2019, were \$125,000 and (ii) in 2018, were \$130,100. 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 Inform, PwC's accounting research software, and PwC's disclosure checklist software, which amounted to \$4,500 in each of 2019 and 2018. 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 and pre-approving all audit and non-audit services provided by the independent auditors. The Audit Committee may delegate pre-approval authority to a member; provided that decisions of such member shall be presented to the full Audit Committee at its next scheduled meeting. The Audit Committee pre-approved all audit and permissible non-audit services provided by the independent auditors in 2019.

ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION (Proposal No. 3)

Pursuant to Section 14A of the Exchange Act, 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, 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 the 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 SEC, 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 NEO 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.

This proposal will be approved if the votes cast favoring the action exceed the votes cast opposing the action.



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

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This Compensation Discussion and Analysis (our “CD&A”) provides an overview of our executive compensation program for 2019 and our executive compensation philosophies and objectives.

Our named executive officers consist of our Chief Executive Officer, our President and Chief Operating Officer, our Chief Financial Officer and our Senior Vice President Gaming Operations (“NEOs”). Our NEOs were:

<u>Name:</u>	<u>Title:</u>
William C. Carstanjen	Chief Executive Officer
William E. Mudd	President and Chief Operating Officer
Marcia A. Dall	Chief Financial Officer
Austin W. Miller	Senior Vice President, Gaming Operations

Executive Summary

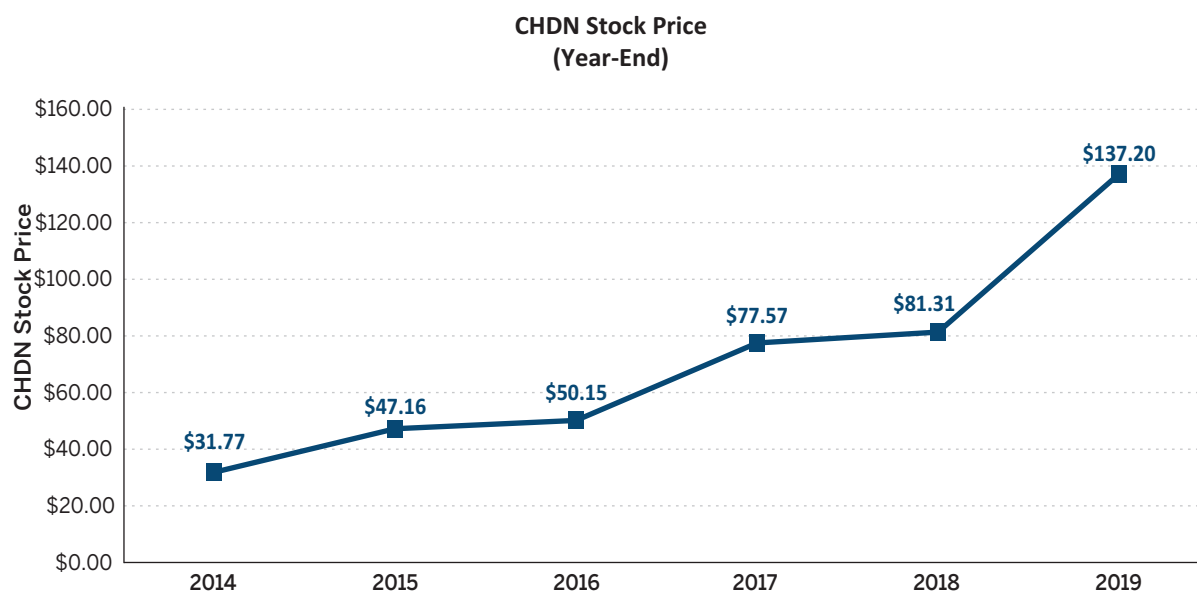
Churchill Downs Incorporated is an industry-leading provider of racing, gaming, and online entertainment and wagering. Our long-term success depends on our ability to attract, engage, motivate and retain highly talented executives and key employees to achieve our strategic plans and deliver financial returns to shareholders over both the short-term and long-term. One of the key objectives of our executive compensation program is to link executives’ pay to their performance and their advancement of the Company’s long-term performance and business strategies. Other objectives include aligning the executives’ interests with those of shareholders and encouraging high-performing executives to remain with the Company over the course of their careers. We believe that the amount of compensation for each NEO reflects each individual’s extensive management experience, high performance and exceptional service to the Company and our shareholders. We also believe that the Company’s compensation strategies have been effective in attracting executive talent and promoting performance and retention.

This Compensation Discussion and Analysis describes the Company’s executive compensation policies and programs and how they apply to our NEOs. It also describes the actions and decisions of the Compensation Committee of the Board of Directors (the “Compensation Committee” or “Committee”), which oversees the executive compensation program and determines the compensation of the NEOs. A detailed discussion of the Committee’s structure, roles and responsibilities, and related matters can be found under “Compensation Committee” on pages 17-19.

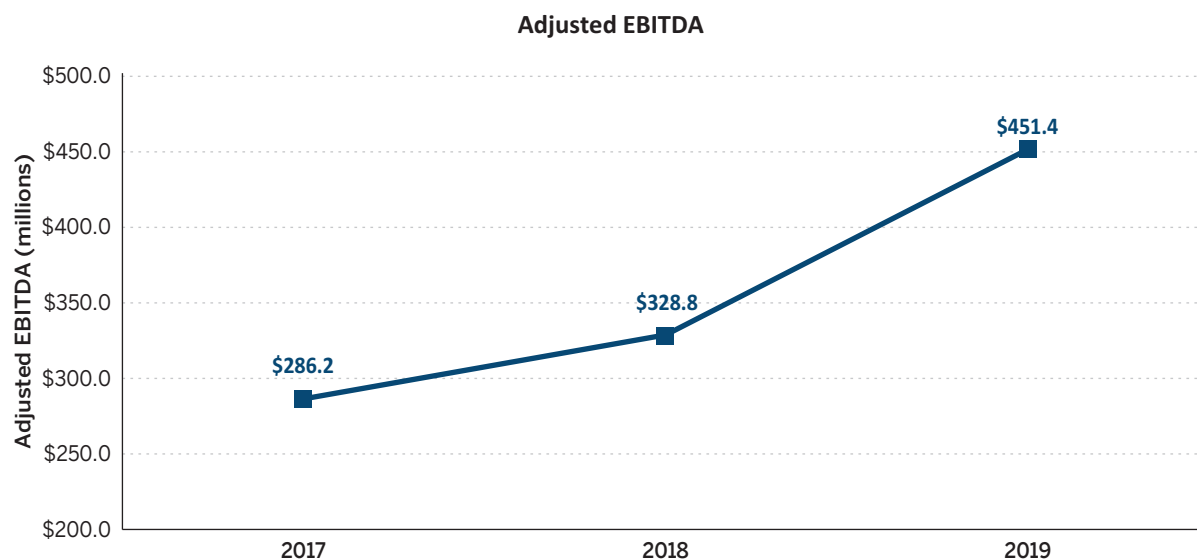
Our long-term incentive goals are based on operational results that the Committee believes drive Company and shareholder success over multi-year performance periods. Certain metrics the Company uses for incentive purposes are as follows (see Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in the 10-K for Fiscal Year 2019 for reconciliation of these metrics to the most directly comparable GAAP measures, and the discussion of Long-Term Incentives beginning on page 33):

- **Adjusted EBITDA**—Adjusted EBITDA used for compensation purposes in fiscal year 2019 was \$451.4 million, exceeding by 8.2% the Adjusted EBITDA target of \$417.3 under the Executive Annual Incentive Plan;
- **Cash Flow Metric**—Cash Flow Metric for compensation purposes in fiscal year 2019 was \$235.0 million, a 47.4% increase compared to fiscal year 2018 Cash Flow Metric for compensation purposes of \$159.4 million; and
- **Total Shareholder Return**—Total Shareholder Return from January 2, 2019 to December 31, 2019 was 71%.

As illustrated in the following chart, the Company’s stock price increased to \$137.20 per share as of December 31, 2019 from \$31.77 per share as of December 31, 2014.



Similarly, as illustrated in the following chart, a key component of our incentive program, Adjusted EBITDA has grown steadily, increasing from \$286.2 million in 2017 to \$451.4 million in 2019 (representing a compound annual growth rate of 26%).



* Please refer to “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on February 26, 2020 for a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP measure. The Company is only providing Adjusted EBITDA data for the past three years to correspond to the reconciliation provided in the Company’s Form 10-K for the fiscal year ended December 31, 2019.

The Company’s outstanding performance is further reflected in the key business metrics summarized in the table below.

	Fiscal Year 2014	Fiscal Year 2019	% Increase	5-Year Compound Annual Growth Rate (CAGR)
CHDN Stock Price	\$31.77	\$137.20	332%	34%
Net Income attributable to CDI (millions)	\$ 46.4	\$ 137.5	196%	24%
Earnings Per Share (from continuing operations, diluted)	\$ 1.08	\$ 3.44	219%	26%
Dividends Per Share	\$0.333	\$ 0.581	74%	12%

Key 2019 Compensation Actions

The primary elements of our total direct compensation program for the NEOs and a summary of the actions taken by the Compensation Committee during 2019 are set forth below.

Compensation Component	Link to Business and Talent Strategies	2019 Compensation Actions
Base Salary (Page 30)	<ul style="list-style-type: none"> Competitive base salaries help attract and retain executive talent. 	<ul style="list-style-type: none"> Merit and market-based increases for 2019.
Annual Cash Incentive Compensation (Page 31)	<ul style="list-style-type: none"> Focus executives on achieving annual financial and non-financial results that are considered key indicators of annual financial and operational performance. Annual cash incentives are earned based on achievement of Adjusted EBITDA and other strategic, operational and financial measures. 	<ul style="list-style-type: none"> Merit and market-based increases to annual cash incentive target opportunities for 2019. Annual cash incentive awards were earned above target at an average of 143% (ranging from 133% to 156%) due to strong Company and executive performance. Implemented newly designed annual cash incentive plan for NEOs, whereby the majority of the annual incentive is formulaically determined based on the achievement of a pre-established financial goal.
Long-Term Equity Incentive Compensation (Page 33)	<ul style="list-style-type: none"> 2019 annual equity-based awards consist of PSUs and RSUs. PSUs vest based on achievement of Adjusted EBITDA and Cash Flow metrics that are considered key indicators of long-term performance, with vesting adjusted based on a relative total shareholder return ("TSR") performance to additionally incorporate creation of stockholder value over the performance period. RSUs provide focus on stock price growth and serve our talent retention objectives. 	<ul style="list-style-type: none"> Merit and market-based increases to target value of equity awards for 2019. The target value of the equity award mix is generally balanced between PSUs (50%) and RSUs (50%). PSUs are subject to a 3-year performance period (2019 -2021) and will be earned based on Adjusted EBITDA (weighted 50%) and Cash Flow (weighted 50%) goals, with a relative TSR modifier of +/-25%. RSUs vest over three years in equal annual installments on December 31, 2019, December 31, 2020 and December 31, 2021.

Executive Compensation Philosophy and Core Principles

What We Do	What We Don't Do
✓ Target Median Compensation Among Peer Group	✗ No Employment Agreements
✓ Executive Stock Ownership Guidelines	✗ No Re-pricing of SARs or Stock Options
✓ Clawback Policy on Cash Bonus and Equity Incentives	✗ No Excise Tax Gross-ups upon Change in Control
✓ PSUs Vesting over Multi-year Performance Period	✗ No Excessive Perquisites
✓ Capped Bonus Payments under Annual Incentive Plan	
✓ Capped PSU Vesting Levels	
✓ Payouts Tied to Individual and Company Performance, with Majority of Payout Determined by Pre-Established Formula and Goal	
✓ Use of an Independent Compensation Consultant	
✓ Anti-hedging policy, applicable to directors and employees	

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. To that end, the Compensation Committee evaluates the pay practices of its peers and targets the median of the peer group. 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 supportive of creating value for shareholders over the long-term.

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

2019 "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 2019, the Company provided shareholders a "say-on-pay" advisory vote on its executive compensation program, as disclosed in the Company's 2019 proxy statement. At the 2019 annual meeting of shareholders, approximately 78% of the votes cast for the "say-on-pay" proposal were in favor of our executive compensation program. Even though this result shows significant shareholder support for our executive compensation program, it is less than what the Company strives to achieve and represents a decrease in support from the 97% level of shareholder support we received in 2018. Leading up to this vote, the Company actively engaged with shareholders owning approximately 50% of our stock to understand their perspectives regarding our executive compensation program and, in particular, the one-time special performance grants awarded last year. While the special performance grants were granted to drive performance and support the retentive aspect of the Company's executive compensation program, the Compensation Committee does not have any plans to award additional special performance grants, although award recipients will continue to receive equity awards as part of the Company's regular annual program.

The Company utilizes shareholder feedback to help guide changes and adjustments to its executive compensation program. For example, based on shareholder feedback the Company received, the 2019 Executive Annual Incentive Plan implemented a formulaic approach in which 75% of the annual incentive award was determined formulaically by the achievement of a pre-established financial goal. At the 2020 Annual Meeting of Shareholders, we are again holding an advisory vote on executive compensation and will continue to engage with our shareholders as we make further improvements to our executive compensation program.

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), the Vice President of Human Resources, and the General Counsel. The Compensation Committee may request the participation of management or outside consultants as it deems necessary or appropriate. The Compensation Committee regularly reports to the Board on compensation matters and annually reviews the CEO's compensation with the Board.

The Committee may also meet in executive session without any members of management, for the purpose of discussing and approving compensation for the CEO, as well as other topics. The CEO reviews the performance of, and makes recommendations to, the Compensation Committee regarding total compensation to be paid to the Company's executive officers other than himself, including salary, annual bonus, and long-term incentive awards, 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 assessment of the Company's performance. The Committee sets the compensation of the CEO in executive session after considering its assessment of the CEO's performance, including due consideration of the CEO's written assessment of the Company's performance. 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. Since March 2015, the Committee has retained Frederic W. Cook & Co., Inc. ("FW Cook") as its independent compensation consultant. The scope of the engagement of FW Cook includes:

- Assisting the Chair 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 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 annual and long-term incentive programs;
- Assisting in the review and evaluation of non-employee director compensation;
- Assisting the Committee in identifying similarly-situated peer group companies;
- Providing the Committee and management with data on market practices for executive pay;
- On behalf of the Committee, assisting management with disclosures, including this Compensation Discussion and Analysis;
- Providing updates to the Committee with regard to regulatory developments; and
- Assisting the Committee in evaluating future equity grants and cash compensation for the NEOs, including the CEO.

FW Cook did not provide any services to the Company other than advising the Committee as provided above. The Compensation Committee assessed FW Cook's independence in light of the SEC requirements and NASDAQ listing standards and determined that FW Cook's work did not raise any conflict of interest or independence concerns.

Factors Used to Evaluate Pay Decisions

The Company seeks to obtain and retain the services of executives who bring the skills, experience, and motivation deemed necessary 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:

- The scope and responsibility of the NEO's position and the perceived level of contribution;

- Internal comparisons among the executive's peers at the Company;
- Comparisons among the executive's peers at the peer group companies, with a target of median among peers;
- The recruitment and development of talent in a competitive market;
- Target annual incentive opportunities based on Company's annual goals with regard to NEO's position, as approved by the Committee; and
- Long-term incentive opportunities driven by the perceived level of contribution expected of the executive toward achieving the Company's growth objectives.

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 and retention.

In making executive pay decisions, the Committee relies substantially on the advice and experience of its independent advisor and the CEO to evaluate the reasonableness of executive pay. While the Committee considers input from its independent advisor, all of the decisions with respect to the Company's executive compensation programs are made by the Committee alone and may reflect factors and considerations other than the information and recommendations provided by management or its outside advisor. In addition, the CEO does not make recommendations with respect to his own compensation. 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.

The Committee believes that it is important for the Company to stay competitive on compensation and the Committee, with the assistance of the Committee's independent advisor, conducts periodic reviews of compensation relative to similarly situated businesses, which can lead to adjustments in compensation and program offerings. The compensation peer group was selected to represent a reasonable match to the Company in terms of size and business characteristics. The group consists of public, similarly sized gaming companies (including traditional gaming, casinos, and internet/software gaming to reflect the Company's diverse operations), where the median net income and market capitalization approximate the Company's net income and market capitalization. The Company periodically reviews the peer group and makes adjustments, as deemed necessary, for continued appropriateness as a market reference for informing executive compensation levels. In 2019, the Company's peer group was adjusted as follows: (i) removed Pinnacle Entertainment, Inc. (PNK) and Tropicana Entertainment, Inc. (TPCA) from the Company's historical peer group (due to their acquisition by other companies); and (ii) added Flutter Entertainment, PLC. (FLTR) to the Company's 2019 peer group due to the similarities in size, EBITDA and market capitalization between Flutter and the Company, and because Flutter operates in several of the Company's business areas, including sports betting and gaming.

Fiscal 2019 Peer Group

Aristocrat Leisure Limited (ALL)
 Boyd Gaming Corporation (BYD)
 Caesars Entertainment Corp. (CZR)
 Eldorado Resorts Inc. (ERI)
 Flutter Entertainment PLC (FLTR)
 Gaming and Leisure Properties Inc. (GLPI)
 Madison Square Garden Company (MSG)
 MGM Resorts International (MGM)
 Penn National Gaming, Inc. (PENN)
 Red Rock Resorts Inc. (RRR)
 Scientific Games Corp (SGMS)
 Wynn Resorts, Limited (WYNN)

It is the opinion of the Committee that the pay decisions made by the Committee are reasonable relative to pay provided to executives at other similar 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.

Components of Compensation

During 2019, the Company used multiple components to provide an overall compensation and benefits package designed to attract and retain the needed level of executive talent for the Company and to incentivize their performance. The following table sets forth the principal compensation elements of the Company’s 2019 executive compensation program and how each element fits into the Company’s overall compensation program and is supportive of the Company’s executive compensation objectives.

Element of Compensation	Attraction	Motivation		Alignment with Stockholder Interests	Retention
		Short-Term	Long-Term		
Base Salary	✓	✓			✓
Annual Incentive Compensation	✓	✓		✓	✓
Long-Term Incentive Compensation	✓		✓	✓	✓

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. Therefore, the Committee establishes base salaries at the time of hire based on the advice of management and its independent advisor regarding reasonable market pay practices, and comparisons with the executive’s peers at the Company. Upon promotion or other adjustment of responsibilities, executives receive base pay increases that are intended to be 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.

In 2019, the following adjustments were made to the base salaries for the Company’s NEOs:

Name	Position	2018 Base Salary (\$) ⁽¹⁾	2019 Base Salary (\$) ⁽²⁾
William C. Carstanjen	Chief Executive Officer	1,350,000	1,350,000
William E. Mudd	President & COO	750,000	1,000,000
Marcia A. Dall	EVP & CFO	625,000	643,750
Austin W. Miller	SVP, Gaming Operations	403,322	500,000

- (1) Annual rate of base compensation shown as of December 31, 2018.
- (2) Annual rate of base compensation shown as of December 31, 2019. Actual salaries paid in 2019 are shown in the 2019 Summary Compensation Table on page 38.
- (3) Peer group market analyses were performed for each of the NEO positions, and adjustments were made to Mr. Mudd’s, Ms. Dall’s, and Mr. Miller’s salaries in response to those analyses. Consistent with the Company’s compensation philosophy, adjustments were made to target the median compensation levels among our peer group. In addition, when evaluating the adjustments for Mr. Mudd and Mr. Miller, the Committee also considered each executive’s role in, and responsibility for, expanding the Company’s business in new areas, including multiple green field projects related to historical horse racing. Under Mr. Mudd’s and Mr. Miller’s leadership, the Company has either opened or is in process with respect to four historical horse racing facilities in Kentucky, including Derby City Gaming (opened in Q4 2018), Oak Grove Racing & Gaming (under construction and scheduled to open in 2020), Churchill Downs Racetrack (under construction), and Turfway Park (construction scheduled to begin after completion of Turfway’s winter 2020 race meet).

Executive Annual Incentive Plan

Our Executive Annual Incentive Plan (“EAIP”) is designed to motivate and reward our NEOs for achieving annual performance objectives by tying the majority of the EAIP award to attainment of a pre-established financial goal. We believe this program supports our “pay-for-performance” culture. Beginning in 2019, 75% of the target EAIP award was determined formulaically based on corporate Adjusted EBITDA performance, and the remaining 25% was based on a qualitative assessment of the attainment of other financial, strategic, operational and individual goals established by the Committee.

The Committee utilized Adjusted EBITDA as elements in both the Company’s Executive Annual Incentive Plan and Executive Long-Term Incentive Plan in recognition that Adjusted EBITDA is viewed as a core driver of the Company’s performance and stockholder value creation. In designing the Company’s executive compensation program, the Committee supplemented this measure with additional performance measures in order to strike an appropriate balance with respect to incentivizing top-line growth, profitability, non-financial business imperatives and stockholder returns over both the short-term and long-term horizons.

Financial Component (75%)

As noted above, 75% of the target EAIP payout was determined formulaically on achievement of the annual Adjusted EBITDA target (the “Financial Component”). In 2019, the Committee set an Adjusted EBITDA target of \$417.3 million, which was higher than the actual 2018 Adjusted EBITDA performance of \$328.8 million (excluding the Big Fish Games transaction). Potential EAIP payouts for the Financial Component ranged from 0% to 200% (i.e., 0% to 150% of total target EAIP award) based on the achievement of the pre-established financial goal in accordance with the following table:

Percentage of Adjusted EBITDA Goal Achieved*	Percentage of Financial Component Awarded	Percentage of Total Target EAIP Award Awarded
Below 80%	0%	0%
80%	50%	37.5%
100%	100%	75%
110%	150%	112.5%
120%	200%	150%

* Amounts in between based on interpolation between the points

In 2019, the actual Company performance was \$451.4 million in Adjusted EBITDA, which was 8% higher than the target of \$417.3 million. This performance resulted in a payout for each NEO at 140.9% of target for the Financial Component (i.e. 105.7% of the target EAIP award) as detailed below.

2019 Adjusted EBITDA Target (in millions)	2019 Actual Adjusted EBITDA (in millions)	Actual Performance as a percentage of Adjusted EBITDA Target	Percentage of Financial Component	Percentage of Total Target EAIP Award
\$417.3	\$451.4	108%	140.9%	105.7%

Qualitative Component (25%)

Pursuant to the EAIP, the Committee established secondary performance goals for the Company and its executives to be used to determine the vesting of the qualitative component under the EAIP, weighted 25% (the “Qualitative Component”). As it has done historically, the Committee set performance goals for 2019, based upon a comprehensive assessment of the Company against its long-term strategic plan 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 business unit performance led by the Company’s key employees (as measured by, among other things, increase in revenues) also played a significant role in evaluating the Company’s performance, and determining the proper level of compensation deemed necessary to incent and reward the NEOs and key employees to continue to drive growth. These goals relate to the

Company’s overall financial goals, strategic goals, and business segment goals, respectively, with no specific weighting attributed to any one goal. In evaluating 2019 performance, some of the accomplishments considered by the Committee included:

- Delivered record net revenues from continuing operations of \$1.32 billion, up \$320.7 million (32%) over 2018;
- Delivered \$451.4 million of Adjusted EBITDA from continuing operations, up \$122.6 million (37%) over 2018;
- Delivered free cash flow for compensation purposes of \$235.0 million, up 47.4% over 2018;
- Achieved 10th consecutive year of record-setting financial performance for Derby week and Kentucky Derby;
- First full year of operation for Derby City Gaming delivered strong net revenue and Adjusted EBITDA growth, on pace for ~2-year payback on \$65 million investment;
- Completed the acquisition of Presque Isle Downs & Casino and the management agreement for Lady Luck Nemaquin, and the acquisition of Turfway Park;
- Completed the 61.3% equity investment in Rivers Casino Des Plaines;
- Launched retail sports betting in Pennsylvania and Indiana;
- Launched online sports betting in New Jersey, Pennsylvania and Indiana;
- Began the buildout of the Oak Grove Racing and Gaming facility, ran the first harness race meet in October / November 2019 and are on schedule to open the HRM facility and hotel in 2020;
- Co-founded a cross-organization racing integrity initiative amongst prominent racing organizations to promote the adoption of best practices to improve equine and jockey safety; and,
- Successfully executed a three-for-one stock split.

In determining the EAIP payouts for the Qualitative Component, 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. The individual awards for Mr. Carstanjen, Mr. Mudd, Ms. Dall, and Mr. Miller were made pursuant to the EAIP plan and as a reward for the NEOs respective roles in driving performance during the period ending December 31, 2019.

Summary of 2019 EAIP Awards.

As noted above, the Company exhibited strong overall financial performance in 2019 and the NEOs were viewed by the Committee to be the primary parties responsible for the actual performance relative to the performance goals established with respect to 2019. The Committee, after considering the Company’s overall performance, awarded the NEOs the total EAIP awards as shown in the table below and in the 2019 Summary Compensation Table in the column labeled “Non-Equity Incentive Plan Compensation.”

Name	Target Incentive Award as a Percentage of Salary ⁽¹⁾	Target Incentive Award in (\$)	Maximum Target Incentive Award as a Percentage of Salary	Maximum Target Incentive Award in (\$)	Actual 2019 Incentive Award in (\$)
William C. Carstanjen	150%	2,025,000	300%	4,050,000	\$3,151,779
William E. Mudd	125%	1,250,000	250%	2,500,000	\$1,700,000
Marcia A. Dall	85%	547,188	170%	1,094,376	\$ 800,000
Austin W. Miller	75%	375,000	150%	750,000	\$ 500,000

(1) Mr. Mudd’s and Mr. Miller’s target incentive award as a percentage of salary was adjusted in 2019 in response to the peer group compensation analysis performed by FW Cook. Consistent with the Company’s compensation philosophy, adjustments were made to target the median compensation levels among our peer group. In addition, when evaluating the adjustments for Mr. Mudd and Mr. Miller, the Committee also considered each executive’s role in, and responsibility for, expanding the Company’s business in new areas.

Long-Term Incentives

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

In 2015, the Compensation Committee approved the adoption of the Executive Long-Term Incentive Plan (the "ELTI Plan"), pursuant to which the NEOs may earn variable equity payouts based upon the Company achieving certain key performance metrics. The purpose of the ELTI Plan is to provide participants with a long-term incentive program that is market-competitive and provides long-term incentives on a regular, predictable, and annual basis. Eligible participants (as determined by the Committee) may be members of the Company's senior executive team and/or such other executives and key contributors as the Committee may designate from time to time. As and to the extent determined by the Committee as part of the annual compensation planning process for participants, the CEO will participate in the ELTI Plan at a rate determined by the Committee. No individual will have an automatic right to participate in the ELTI Plan. A summary of the 2019 terms and applicable award opportunities, granted by the Committee to the NEOs, is provided below.

During the beginning of 2019, the CEO recommended employees (other than with respect to himself) to the Committee for participation in the ELTI Plan for 2019 and their respective specific levels of proposed participation. Awards granted to eligible employees under the ELTI Plan may be in the form of RSUs, PSUs, or both. To pursue the key objective of linking executive compensation with Company performance, the Committee generally aims to deliver at least 50% of the grant value of the 2019 awards as PSUs.

The Committee approved the 2019 RSU awards on February 13, 2019, and the PSU awards (for the 36-month performance period of January 1, 2019 through December 31, 2021) on March 12, 2019. The 2019 awards are as follows:

Executive Officer	RSUs		PSUs		Total	
	#	\$ ⁽¹⁾	#	\$ ⁽²⁾	#	\$ ⁽³⁾
William C. Carstanjen	31,074	\$2,950,166	33,719	\$3,132,495	64,793	\$6,082,661
William E. Mudd	13,167	\$1,250,075	14,288	\$1,327,355	27,455	\$2,577,430
Marcia A. Dall	5,796	\$ 550,272	6,287	\$ 584,062	12,083	\$1,134,334
Austin W. Miller	5,004	\$ 475,080	3,429	\$ 318,554	8,433	\$ 793,634

- (1) The market value of the time-vesting RSUs, in the above table, was calculated utilizing the closing price of the Company's common stock as of February 13, 2019 multiplied by the total number of time-vesting RSUs granted.
- (2) The grant date fair value for the PSUs in the above table was calculated based on the probable achievement of the performance goals and a Monte-Carlo simulation model, which factors in the value of the relative TSR modifier (defined below) that is applied to the award before the share-based payment vests. The PSUs, in the above table, represent the target opportunity, and corresponding fair value, available to the grantees should the Company achieve the pre-determined performance metrics. Actual shares that vest pursuant to the PSUs may be more or less given the performance on the selected metrics discussed below.
- (3) Mr. Carstanjen's and Mr. Mudd's long-term equity awards were adjusted in 2019 in response to the peer group compensation analysis performed by FW Cook. Consistent with the Company's compensation philosophy, adjustments were made to target the median compensation levels among our peer group. In addition, when evaluating the adjustments for Mr. Carstanjen and Mr. Mudd, the Committee also considered each executive's role in, and responsibility for, expanding the Company's business in new areas, including historical horse racing and sports wagering. Finally, in approving Mr. Carstanjen's and Mr. Mudd's long-term equity award levels, the Committee allocated a significant portion of their total target direct compensation increases to their target long-term equity award levels to be consistent with the Company's long-standing compensation philosophy of aligning executive officers' interests with stockholders through the risks and rewards of equity ownership.

With respect to the PSU awards in the table above, performance will be based on the following three Performance Measures during the 36-month period from January 1, 2019 through December 31, 2021 (the "Performance Period"):

- 1) Adjusted Earnings before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA") (50% weight). Adjusted EBITDA during the Performance Period relative to the pre-established goals set for such measurement period, will be

derived from the Company's consolidated financial statements with any necessary adjustments similar to those described further below;

- 2) Cash Flow Metric ("Cash Flow Metric") (50% weight). Cumulative Cash Flow (i.e. the sum of the free cash flows from the annual periods ending December 31 of each of 2019, 2020, and 2021, respectively, where the Cash Flow Metric goals are set at the beginning of each of those three periods) will also be derived from the Company's consolidated financial statements with any necessary adjustments similar to those described further below; and
- 3) Relative Total Shareholder Return Modifier ("TSR"). The Company's TSR modifier will be determined by ranking the return on the Company's shares against those of the companies in the Russell 2000 index, in each case, over the Performance Period. The Company's TSR will be calculated based upon the Company's relative placement against the Russell 2000 over the Performance Period. The PSU awards determined by the Adjusted EBITDA and Cash Flow Metric performance goals described above will then be adjusted based on the Company's TSR, by increasing the PSU awards by 25% if the Company's TSR is in the top quartile, decreasing the PSU awards by 25% if the Company's TSR is in the bottom quartile, and providing no change to the PSU awards if the Company's TSR is in the middle two quartiles.

The maximum number of PSUs that can be earned for the Performance Period is 250% of target. At the end of the Performance Period, the Committee will review performance achieved on each pre-established Performance Measure. The goals are intended to be challenging, but achievable with strong management performance. The payout for each Performance Measure will be determined by a payout curve, as achievement that lies in between two goals will be interpolated.

With respect to the RSU awards, the RSUs vest in one third (1/3) increments on each of December 31, 2019, December 31, 2020 and December 31, 2021, respectively, generally subject to the executive's continued employment through the applicable vesting date.

With respect to the performance period and related PSU awards under the ELTI Plan for January 1, 2017 through December 31, 2019, the actual performance was certified by the Compensation Committee in its February 2020 meeting (with a TSR at 181.5%, in the top 5% of the Russell 2000 over the performance period) as set forth below:

	Target	Maximum	Actual	% of Target	Projected Payout	Weighted Payout
Adjusted EBITDA:	\$1,069 million	\$1,282.8 million	\$1,373.4 million	128.5%	200% (when >120%)	100%
Cash Flow Metric:	\$ 494 million	\$ 592.8 million	\$ 579.2 million	117.2%	172.5%	86.2%
Total Weighted Payout:		186.2%				
x TSR Modifier:		125%				
Target Multiplier:		232.8%				

Name ⁽¹⁾	Target PSU Award	Target Multiplier	PSUs Awarded ⁽²⁾
William C. Carstanjen	38,685	232.8%	90,056
William E. Mudd	16,443	232.8%	38,278
Marcia A. Dall	10,155	232.8%	23,640

- (1) Mr. Miller became an NEO after the 2017 ELTI awards were granted and, accordingly, did not receive a 2017 ELTI award.
 - (2) In 2020, the Committee offered the cash-settlement of the 2017 PSU awards and each NEO accepted the Committee's offer to settle the awards in cash. Accordingly, in February 2020, the 2017 PSU awards were settled in cash after certification by the Committee that the Company achieved the required level of performance. The 2017 PSU awards were settled based upon the closing price of the Company's common stock on February 12, 2020 (\$160.26 per share).
- Adjusted EBITDA—as defined in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K for the year ended December 31, 2019.

	2017	2018	2019
As reported in the 2019 Form 10-K	\$286.2	\$328.8	\$451.4
Pre-tax gain on Big Fish Transaction	N/A	\$219.5	N/A
Big Fish Adjusted EBTIDA (discontinued operation)	\$ 80.3	\$ 3.4 ⁽¹⁾	N/A
Changes in Big Fish Deferred Revenue	\$ 3.8	N/A	N/A
Adj. EBITDA for Compensation Purposes	\$370.3	\$551.7	\$451.4

- (1) Represents Adjusted EBITDA through January 9, 2018, on which date the Company completed the sale of Big Fish Games, Inc.
- Cash Flow Metric—Our cash flow metric is defined as Cash Flows from Operating Activities in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K for the year ended December 31, 2019, not including the impact from the change in restricted cash, plus distributions of capital from equity investments less capital maintenance expenditures.

	2017	2018	2019
Cash Flow from Operating Activities	\$215.1	\$197.8	\$289.6
Distributions of Capital from Equity Investments	\$ 0	\$ 0	\$ 0
Capital Maintenance Expenditures	\$ (33.3)	\$ (29.6)	\$ (48.3)
Change in Restricted Cash	\$ (3.1)	\$ 8.8	\$ 6.3
Cash Flow Metric	\$184.9	\$159.4	\$235.0

- Total Shareholder Return—defined as the Company’s stock price as of the end of the measurement period, assuming reinvestment of dividends, divided by the Company’s stock price as of the beginning of the measurement period. The Company’s Total Shareholder Return for the period January 1, 2017 through December 31, 2019 was 181.5%.

Executive Stock Ownership Guidelines

Our Board of Directors has adopted minimum stock ownership guidelines for our executive officers. The principal objective of the guidelines is to enhance the linkage between the interests of shareholders and our executive officers by requiring a meaningful, minimum level of stock ownership. The current guidelines provide that, within five (5) years of becoming subject to the stock ownership guidelines, our CEO should own shares valued at an amount equal to six times (6x) his base salary, our COO should own shares valued at an amount equal to four times (4x) his base salary, and our CFO and other executive officers should own shares valued at an amount equal to three times (3x) the executive’s base salary.

In 2019, each NEO met or exceeded the guidelines:

Executive Officer	Ownership Guidelines	Shares Owned ⁽¹⁾	Value of Shares ⁽²⁾	Multiple of Salary ⁽³⁾
William C. Carstanjen	6x	534,433	\$73,324,208	54
William E. Mudd	4x	291,692	\$40,020,142	40
Marcia A. Dall	3x	38,990	\$5,349,428	8
Austin W. Miller	3x	44,842	\$6,152,322	12

- (1) Calculated as of December 31, 2019 and represents shares of Common Stock owned outright.
- (2) Based on the closing Company stock price of \$137.20 as of December 31, 2019.
- (3) Calculated using the base salary information illustrated on page 30.

Anti-Hedging Policy

Under the terms of the Company’s Statement of Company Insider Trading Policy, our directors, officers and other employees are prohibited from engaging in hedging and monetization transactions and transactions that involve exchange-traded options

or short sales of the Company's securities. Because hedging transactions might permit a director, officer or other employee to continue to own our securities without the full rewards and risks of ownership, such hedging transactions are prohibited.

Clawback Policy

Under the terms of the Company's Executive Incentive Compensation Recoupment Policy, the NEOs' incentive compensation is subject to "clawback" in the event of a material restatement of the Company's financial statements due to material noncompliance with any financial reporting requirement under securities laws that would have resulted in less incentive compensation awarded or paid to the executive had the financial results been properly reported during the three fiscal years prior to a material restatement. The Committee may require the NEO to repay all or a portion of compensation paid and cancel unvested or vested incentive compensation awarded during the applicable time-period.

Deferred Compensation and Other Benefits

The Company's philosophy is to provide retirement and savings benefits to executives which are commonly provided by other public companies. The benefits available to executives 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 Internal Revenue Code (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 29 investment options. All assets of the 401(k) Retirement Plan are held in a trust that is intended to be qualified under Section 501 of the Code.

Deferred Compensation Plan. For 2019, the Company maintained a Deferred Compensation Plan for select executives. The purpose of the plan was 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.

For purposes of determining earnings under the Deferred Compensation Plan, various hypothetical investment alternatives consistent with those offered under the Company's 401(k) Retirement Plan are available. The current hypothetical investments available under the Deferred Compensation Plan consist of 37 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.

On December 13, 2019, the Compensation Committee elected to "freeze" the Deferred Compensation Plan with respect to employee participant deferrals after the 2019 plan year. 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 2019 Nonqualified Deferred Compensation Table, on page 43, and the accompanying narrative below.

New Restricted Stock Unit Deferral Plan. On December 13, 2019, the Compensation Committee, adopted the Churchill Downs Incorporated Restricted Stock Unit Deferral Plan (the "Deferral Plan"), effective January 1, 2020. Under the Deferral Plan, certain individual employees who are management or highly compensated employees of the Company may elect to defer settlement of RSUs granted to them pursuant to the 2016 Omnibus Stock Incentive Plan that are due to be earned and that would otherwise be settled with respect to a given year pursuant to the terms of an RSU agreement between the Company and such employees. An account will be established and maintained for each participant, and each participant's account shall be credited with all RSUs and any applicable dividend equivalents allocated to such participant. A participant's account under the Deferral Plan will be settled on the earlier of: (i) the participant's separation from service with the Company or (ii) the date fixed in such participant's plan participation agreement. The Company believes that the new Deferral Plan further aligns with its overall compensation program objectives by aligning the long-term interests of participants and shareholders through the deferral of RSUs.

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 each NEO. These plans provide benefits which are similar to those provided to eligible employees, but extend the benefit levels to be appropriate to the income of the executive officers. For Company executives, the Company may reimburse spouse's travel expenses for travel with the executive on Company business on a case-by-case basis.

Severance Benefits. The Compensation Committee believes that arrangements that provide benefits upon termination or a change in control of the Company support the goals of attracting and retaining qualified executives. Such benefits include clarifying the terms of employment and reducing the risks to the executive where the executive believes that either the Company may undergo a merger or be acquired. In addition, the Compensation 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 Compensation Committee has adopted forms of Executive Change in Control, Severance and Indemnity Agreements (the "Change in Control Agreements") applicable to the NEOs. Prior to 2019, Mr. Miller was not a party to a Change in Control Agreement. The terms of the Change in Control Agreements were determined after considering market data and the input of the Committee's independent compensation consultant at the time. The Change in Control Agreements provide, subject to the Company receiving a general release of claims from the executive, severance benefits in the event the executive's employment is terminated (i) by the Company other than for "Cause" (as defined in the Change in Control Agreement), "Disability" (as defined in the Change in Control Agreement) or death or (ii) by the executive for "Good Reason" (as defined in the Change in Control Agreement), with enhanced benefits for a termination in connection with a "Change in Control" (as defined in the Change in Control Agreement). All equity-based awards in effect at the time of termination for the aforementioned reasons shall remain governed by the applicable plan or award agreement. The Change in Control Agreements do not provide for any tax gross-ups for excise taxes payable following a Change in Control.

Please see the "Potential Payments Upon Termination or Change of Control" section for a summary of the severance benefits payable to the NEOs under their applicable Change in Control Agreements.

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, 2019.

Compensation Committee of the Board of Directors:

Daniel P. Harrington, Chair
Robert L. Fealy
Douglas C. Grissom
R. Alex Rankin, ex officio

2019 SUMMARY COMPENSATION TABLE

The following table provides information regarding compensation earned by our Chief Executive Officer, President & Chief Operating Officer, Executive Vice President & Chief Financial Officer, and Senior Vice President, Gaming Operations (sometimes referred to in this proxy statement as the “Named Executive Officers” or “NEOs”).

Name and Principal Position	Year	Base Salary (\$)	Bonus (\$)	Stock Awards (\$) ⁽¹⁾	Non-Equity Incentive Plan Compensation (\$) ⁽²⁾	All Other Compensation (\$) ⁽³⁾	Total (\$) ⁽⁵⁾
William C. Carstanjen Chief Executive Officer	2019	1,350,000	-0-	6,082,661	3,151,779	16,854	10,601,294
	2018	1,276,154	-0-	16,827,946	3,000,000	16,269	21,120,369
	2017	1,023,077	-0-	4,157,013	2,250,000	17,102	7,447,192
William E. Mudd President and Chief Operating Officer	2019	942,307	-0-	2,577,430	1,700,000	48,662	5,268,399
	2018	726,923	-0-	9,389,550	1,250,000	47,126	11,413,599
	2017	642,269	-0-	1,766,800	900,000	38,049	3,347,118
Marcia A. Dall Executive Vice President and Chief Financial Officer	2019	639,423	-0-	1,134,334	800,000	17,077	2,590,834
	2018	607,692	-0-	1,155,060	775,000	16,268	2,554,020
	2017	544,231	-0-	1,091,465	675,000	15,535	2,326,231
Austin W. Miller⁽⁴⁾ Senior Vice President, Gaming Operations	2019	477,690	-0-	793,634	500,000	33,930	1,805,254
	2018	399,743	-0-	804,983	325,700	29,437	1,559,863

- In accordance with the SEC executive compensation disclosure rules, the amounts shown in 2019 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, in connection with service-based RSUs and PSUs granted pursuant to the ELTI Plan to each of our participating NEOs in 2019. The amounts included in the Stock Awards column for the PSUs granted during 2019 are calculated based on the probable satisfaction of the performance conditions for such awards as of the date of grant. Assuming the highest level of performance is achieved for the 2019 PSUs subject to the Adjusted EBITDA, Cash Flow metrics as well as the TSR modifier, the maximum value of such PSUs at the grant date would be as follows: Mr. Carstanjen—\$7,375,188; Mr. Mudd—\$3,125,143; Ms. Dall—\$1,375,124; and Mr. Miller—\$750,008. See Note 10 to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2019 for a discussion of the relevant assumptions used in calculating the amounts reported for 2019.
- Amounts in this column represent payments for performance under the Executive Annual Incentive Plan (“EAIP”). Mr. Carstanjen, Mr. Mudd, Ms. Dall, and Mr. Miller received their 2019 EAIP awards in February 2020. Typically, payments for each year shown are made by March 15 of the following year.
- The table below shows the components of this column for 2019, which include the Company match for each individual’s defined contribution plan contributions, life insurance premiums, and supplemental long-term disability insurance premiums.
- Mr. Miller became an NEO in 2018.
- In 2018, the Company approved a special, meaningful, equity award (the “7-Year Grant”) to Mr. Carstanjen and Mr. Mudd. The 7-Year Grant was in addition to participation in the Company’s regular annual long-term incentive program for 2018 and was sized such that it will serve as substantial incentive to retain both executives over the seven-year vesting period and keep both executives focused on the long-term financial and stock price success of the Company. The stock units awarded in the 7-Year Grants were primarily in the form of PSUs (127,587 and 79,743 for Mr. Carstanjen and Mr. Mudd, respectively), with vesting based on the Company’s relative TSR performance versus the Russell 2000 over a three-year performance period (October 30, 2018 through October 29, 2021), with vesting occurring thereafter in 25% annual increments over four years beginning on the fourth anniversary of the grant date, totaling seven years to be fully vested. The remaining stock units awarded were in the form of service-based RSUs (48,711 and 30,444 for Mr. Carstanjen and Mr. Mudd, respectively), which vest in 25% annual increments over four years beginning on the fourth anniversary of the grant date, totaling seven years to be fully vested.

ALL OTHER COMPENSATION FOR FISCAL YEAR ENDED DECEMBER 31, 2019

Name	Company Contributions Under Defined Contribution Plans ⁽¹⁾ (\$)	Life Insurance Premiums ⁽²⁾ (\$)	Supplemental Long-Term Disability Insurance Premiums ⁽³⁾ (\$)	Total All Other Compensation (\$)
William C. Carstanjen	11,200	3,854	1,800	16,854
William E. Mudd	44,507	2,654	1,501	48,662
Marcia A. Dall	11,200	3,189	2,688	17,077
Austin W. Miller	28,446	3,208	2,276	33,930

- (1) This amount includes Company contributions to both 401(k) and deferred compensation plans.
- (2) Mr. Carstanjen, Mr. Mudd, Ms. Dall and Mr. Miller receive group life coverage equal to two times base salary with a \$3 million maximum. The amounts in this column are the premiums for the NEOs' coverage.
- (3) Mr. Carstanjen, Mr. Mudd, Ms. Dall and Mr. Miller receive long-term disability coverage equal to sixty percent (60%) of their base salary with a \$10,000 per month maximum in the event of a long-term disability. 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.

GRANTS OF PLAN-BASED AWARDS FOR FISCAL YEAR ENDED DECEMBER 31, 2019

The grants in the following table are generally described in the Compensation Discussion and Analysis, beginning on page 23.

Name	Grant Date	Estimated Future Payout under Non-Equity Incentive Plan Awards ⁽¹⁾			Estimated Future Payout under Equity Incentive Plan Awards ⁽²⁾			All Other Stock Awards: Number of Shares of Stock or Units (#) ⁽³⁾	Grant Date Fair Value of Stock Awards (\$)
		Threshold (\$) ⁽⁴⁾	Target (\$)	Max (\$)	Threshold (#)	Target (#)	Max (#)		
William C. Carstanjen		759,375	2,025,000	4,050,000					
	02/13/2019						31,074	2,950,166	
	03/12/2019				16,860	33,719	84,298	3,132,495	
William E. Mudd		468,750	1,250,000	2,500,000					
	02/13/2019						13,167	1,250,075	
	03/12/2019				7,144	14,288	35,720	1,327,355	
Marcia A. Dall		205,196	547,188	1,094,376					
	02/13/2019						5,796	550,272	
	03/12/2019				3,144	6,287	15,718	584,062	
Austin W. Miller		140,625	375,000	750,000					
	02/13/2019						5,004	475,080	
	03/12/2019				1,715	3,429	8,573	318,554	

- (1) Represents annual incentive bonus opportunities under the EAIP for each of the NEOs. See "Executive Annual Incentive Plan" beginning on page 31. Actual bonus payments for 2019 are listed under Non-Equity Incentive Plan Compensation in the 2019 Summary Compensation Table on page 38.
- (2) Represents the PSUs granted under the ELTI Plan to each of the NEOs, which vest based on the Company's performance with respect to Adjusted EBITDA for compensation purposes and the cash flow metric over the 2019-2021 performance period. The vesting of these awards is also subject to a TSR modifier which could increase or decrease the number of shares earned under an award by 25%, as more fully explained on pages 33-34.
- (3) Represents RSUs granted under the ELTI Plan to each of the NEOs, which are scheduled to vest in 1/3 increments on each of December 31, 2019, 2020 and 2021, subject generally to the NEO's continued employment through the applicable vesting date.
- (4) The EAIP threshold represents a 50% payout of the pre-established financial performance goal, which constitutes 75% of the target EAIP payout, based upon achievement of the minimum annual Adjusted EBITDA target. The individual performance goal has a range 0% to 200% payout depending on achievement of goals, which constitutes the remaining 25% of the total EAIP payout and is not included in the threshold.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END FOR FISCAL YEAR ENDED DECEMBER 31, 2019

The following table provides information regarding unvested stock awards held by each of the Named Executive Officers on December 31, 2019. As of such date, none of our Named Executive Officers held any outstanding option awards.

Name	Stock Awards			
	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) ⁽¹⁾	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 (\$) ⁽¹⁾
William C. Carstanjen	78,211 ⁽²⁾	10,730,549	189,158 ⁽⁴⁾	25,952,478
William E. Mudd	42,660 ⁽²⁾	5,852,952	104,930 ⁽⁴⁾	14,396,396
Marcia A. Dall	5,967 ⁽²⁾	818,672	12,947 ⁽⁴⁾	1,776,328
Austin W. Miller	5,151 ⁽²⁾	706,717	7,062 ⁽⁴⁾	968,906
	3,063 ⁽³⁾	420,244	-0-	-0-

- (1) Based on the December 31, 2019 closing price of CHDN of \$137.20 per share.
- (2) Represent awards under the ELTI Plan consisting of RSUs for continued employment periods from January 1, 2018—October 30, 2025. The 78,211 RSUs for Mr. Carstanjen vest as follows: 19,142 units on December 31, 2020; 10,358 on December 31, 2021; 12,177 on October 30, 2022; 12,177 on October 30, 2023; 12,177 on October 30, 2024 and 12,180 on October 30, 2025. The 42,660 RSUs for Mr. Mudd vest as follows: 7,827 units on December 31, 2020; 4,389 units on December 31, 2021; 7,611 on October 30, 2022; 7,611 on October 30, 2023; 7,611 on October 30, 2024 and 7,611 on October 30, 2025. The 5,967 RSUs for Ms. Dall vest as follows: 4,035 units on December 31, 2020 and 1,932 units on December 31, 2021. The 5,151 RSUs for Mr. Miller vest as follows: 3,486 units on December 31, 2020 and 1,668 units on December 31, 2021.
- (3) Represents restricted shares awarded to Mr. Miller under the 2016 Omnibus Stock Incentive Plan in connection with Mr. Miller's continued employment. The 3,063 restricted shares vest as follows: 3,063 on February 17, 2020.
- (4) Represent awards under the ELTI Plan consisting of PSUs for certain performance periods from January 1, 2018 through December 31, 2021. The 189,158 PSUs for Mr. Carstanjen are subject to vesting on the following dates, subject to meeting the performance criteria at the end of each applicable performance period: 27,852 units on December 31, 2020; 33,719 units on December 31, 2021; 31,897 units on October 30, 2022; 31,897 units on October 30, 2023; 31,897 units on October 30, 2024 and 31,896 units on October 30, 2025. The 104,930 PSUs for Mr. Mudd are subject to vesting on the following dates, subject to meeting the performance criteria at the end of each applicable performance period: 10,899 units on December 31, 2020; 14,288 units on December 31, 2021; 19,936 units on October 30, 2022; 19,936 units on October 30, 2023; 19,936 units on October 30, 2024 and 19,935 units on October 30, 2025. The 12,947 PSUs for Ms. Dall are subject to vesting upon meeting the performance criteria at the end of the following performance periods: 6,660 units on December 31, 2020 and 6,287 on December 31, 2020. The 7,062 PSUs for Mr. Miller are subject to vesting upon meeting the performance criteria at the end of the following performance periods: 3,633 on December 31, 2020 and 3,429 on December 31, 2021. For purposes of this table, the PSUs are reported assuming target performance.

STOCK VESTED FOR FISCAL YEAR ENDED DECEMBER 31, 2019

The following table provides information concerning vesting of stock awards during 2019 for each of the Named Executive Officers. None of our Named Executive Officers held any stock options during 2019.

	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) ⁽²⁾
William C. Carstanjen	122,095 ⁽¹⁾	\$18,828,125
William E. Mudd	51,586 ⁽¹⁾	\$ 7,960,290
Marcia A. Dall	31,062 ⁽¹⁾	\$ 4,806,845
Austin W. Miller	9,903	\$ 1,229,770

- (1) Shares include PSU vesting for Mr. Carstanjen (90,056), Mr. Mudd (38,278), and Ms. Dall (23,640) for the performance period January 1, 2017 through December 31, 2019, as more fully explained under *Long Term Incentives* on page 33. In 2020, the Committee offered the cash-settlement of the 2017 PSU awards and each NEO accepted the Committee's offer to settle the awards in cash. Accordingly, in February 2020, the 2017 PSU awards were settled in cash after certification by the Committee that the Company achieved the required level of performance.
- (2) The RSUs vested reflect the market value of the stock on the day the stock vested. The 2017 PSU awards were settled based upon the closing price of the Company's common stock on February 12, 2020 (\$160.26 per share) after certification by the Compensation Committee.

NONQUALIFIED DEFERRED COMPENSATION FOR FISCAL YEAR ENDED DECEMBER 31, 2019

The following table provides information regarding compensation that has been deferred by the Named Executive Officers pursuant to the terms of the Company's nonqualified deferred compensation plan.

Name	Executive Contributions in Last Fiscal Year (\$) ⁽¹⁾	Registrant Contributions in Last Fiscal Year (\$) ⁽²⁾	Aggregate Earnings (Losses) in Last Fiscal Year (\$)	Aggregate Withdrawals Distributions (\$)	Aggregate Balance at Last Fiscal Year End (\$) ⁽³⁾
William C. Carstanjen	-0-	-0-	-0-	-0-	-0-
William E. Mudd	47,115	33,308	155,629	-0-	802,684
Marcia A. Dall	-0-	-0-	52,791	-0-	250,997
Austin W. Miller	119,422	17,246	180,926	-0-	1,745,528

- (1) The amounts in this column are also included in the 2019 Summary Compensation Table on page 38 in the salary column or the non-equity incentive plan compensation column.
- (2) The amounts in this column are also included in the 2019 Summary Compensation Table on page 38 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	2019 (\$)	Previous Years (\$)
William C. Carstanjen	-0-	-0-
William E. Mudd	80,423	407,936
Marcia A. Dall	-0-	175,900
Austin W. Miller	136,668	73,922 ⁽¹⁾

- (1) Mr. Miller became an NEO in 2018. Because Mr. Miller's compensation has not previously been reported in the Company's summary compensation tables, deferrals from years prior to 2018 are not reported here.

The Nonqualified Deferred Compensation table above shows information about the Company's nonqualified deferred compensation plan. In 2019, executive officers and other executives could 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 was 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 in the event of a termination of employment. None of our compensation arrangements with our NEOs provide for single trigger vesting or severance benefit upon a change in control (“CIC”) of the Company without a related or subsequent qualifying termination of employment. The amount of compensation payable to each NEO in each situation as of December 31, 2019 is listed in the table below.

Name	Cash Severance Payment (\$)	Acceleration & Continuation of Equity Awards (\$) ⁽¹⁾	Total Benefits (\$)
William C. Carstanjen			
Involuntary or good reason termination	8,783,031	21,627,636 ⁽⁴⁾	30,410,667
Change in control without termination	-0-	-0-	-0-
Death or Disability	2,025,000 ⁽²⁾	21,627,636 ⁽⁵⁾	23,652,636
Involuntary or good reason termination within 2 years CIC	8,783,031	36,683,027 ⁽³⁾	45,466,058
William E. Mudd			
Involuntary or good reason termination	4,633,367	11,758,017 ⁽⁴⁾	16,391,384
Change in control without termination	-0-	-0-	-0-
Death or Disability	1,250,000 ⁽²⁾	11,758,017 ⁽⁵⁾	13,008,017
Involuntary or good reason termination within 2 years CIC	5,758,367	20,249,348 ⁽³⁾	26,007,715
Marcia A. Dall			
Involuntary or good reason termination	1,794,801	1,715,366 ⁽⁴⁾	3,510,167
Change in control without termination	-0-	-0-	-0-
Death or Disability	547,188 ⁽²⁾	1,715,366 ⁽⁵⁾	2,262,554
Involuntary or good reason termination within 2 years CIC	2,390,270	2,595,001 ⁽³⁾	4,985,271
Austin W. Miller			
Involuntary or good reason termination	1,317,756	1,616,079 ⁽⁴⁾	2,933,835
Change in control without termination	-0-	-0-	-0-
Death or Disability	375,000 ⁽²⁾	1,616,079 ⁽⁵⁾	1,991,079
Involuntary or good reason termination within 2 years CIC	1,755,256	2,095,867 ⁽³⁾	3,851,123

- (1) Represents the market value as of December 31, 2019 of stock awards accelerated or continued in each scenario. For purposes of this disclosure, market value is determined using the December 31, 2019 closing price of CHDN of \$137.20 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) Represents one hundred percent (100%) of all unvested restricted stock awards, RSU and PSU awards (based on to-date performance as of the termination date) granted under the 2016 Omnibus Stock Incentive Plan and the ELTI Plan.
- (4) Represents (i) continued vesting of all unvested RSUs as of the termination date, plus (ii) continued vesting of all PSUs based on performance through the entire performance period, pro-rated for the time the NEO was employed during that performance period. For purposes of this table, all PSUs values are based on target performance.
- (5) Represents (i) accelerated vesting of all unvested RSUs as of the termination date, plus (ii) continued vesting of all PSUs based on performance through the entire performance period, pro-rated for the time the NEO was employed during that performance period. For purposes of this table, all PSUs values are based on target performance.

Non-Solicit Provisions

Mr. Carstanjen, Mr. Mudd, Ms. Dall and Mr. Miller (the “NEOs”) each entered into an Executive Change in Control, Severance and Indemnity Agreement (the “Change in Control Agreements”) with the Company, replacing all previously executed employment agreements, if any, which were mutually terminated by the Company and each NEO. Pursuant to each of these agreements, each NEO is subject to a two-year non-solicitation period after the termination of their employment with the Company for any reason, during which they 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 Change in Control Agreements, executed by the NEOs, 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. Carstanjen and Mr. Mudd. The Change in Control Agreement executed by Mr. Carstanjen and Mr. Mudd in 2018 provides that, upon termination by the Company without cause or by the executive upon constructive termination or for good reason, the executive will be entitled to receive (a) an amount in cash equal to, in the case of Mr. Carstanjen, 2 times and, in the case of Mr. Mudd, 1.5 times the sum of (x) the executive’s annual base salary and (y) the amount of the executive’s annual target bonus for the year in which the Executive was terminated, (b) a lump sum amount equal to the prorated in-cycle bonus of executive’s target bonus for the year in which the executive’s termination of employment occurs; (c) treatment of all equity-based awards per the terms of the applicable plan, award or agreement; and (d) a lump sum cash payment equal to the total premiums for medical, dental and vision benefits for a three-month period.

Ms. Dall and Mr. Miller. The Change in Control Agreement executed by Ms. Dall and Mr. Miller provides that, upon termination by the Company without cause or by the executive upon constructive termination or for good reason, the executive will be entitled to receive (a) an amount in cash equal to 1.5 times the sum of (x) the executive’s annual base salary and (y) the amount of the executive’s annual target bonus for the year in which the executive was terminated; (b) treatment of all equity-based awards per the terms of the applicable plan, award or agreement; and (c) a lump sum cash payment equal to the total premiums for medical, dental and vision benefits for a three-month period.

Change in Control Benefits. The current agreements for the NEOs also provide for the following change in control provisions: if the executive is terminated within two years following a change in control, the NEO will receive severance as provided above, except that the salary and bonus severance multiple shall in each case be 2x.

In the event that any or all payments to any of the NEOs are subject to the excise tax imposed by Section 4999 of the Code, such payments shall be reduced to one dollar (\$1) below the maximum amount of payments that will not be subject to such tax; provided, however, that the foregoing limitation shall not apply in the event the total payments to the NEO, on an after-tax basis, would exceed the after-tax benefits to the NEO if such limitation applied. The NEO shall bear the expense of any and all excise taxes due on any payments that are deemed to be “excess parachute payments” under Section 280G of the Code.

PAY RATIO

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are providing the following disclosure about the relationship of the annual total compensation of our employees to the annual total compensation of Mr. Carstanjen, our Chief Executive Officer. To understand this disclosure, we think it is important to give context to our operations. Our business is seasonal and relies heavily on seasonal, part-time and hourly workers. In addition, our gaming business operation also employs many part time hourly employees. In total, approximately 76.6% of our workforce consists of hourly employees.

We strive to create a compensation program that is competitive in terms of both the position and the geographic location in which the employee is located. Accordingly, our pay structures vary among employees based on position and geographic location.

Identification of Median Employee

For 2019, we elected to use December 22, 2019 (instead of December 15th) as the date on which to determine our median employee. This date was chosen because it followed the closing and administrative processing of the 2019 fall race meets at Churchill Downs Racetrack so seasonal employees utilized only during the race meets (i.e., not during the majority of the year) and not viewed as representative of our general employee base were no longer on the payroll. As of December 22, 2019, we had approximately 5,241 employees. For purposes of identifying the median employee, we ran a report for all year-to-date taxable compensation for employees as of the selection date, and sorted by the total compensation.

Using this methodology, we determined our median employee was a full-time, hourly employee with an annual total compensation of \$23,670. In determining the annual total compensation of the median employee, we calculated such employee's compensation in accordance with Item 402(c)(2)(x) of Regulation S-K as required pursuant to SEC executive compensation disclosure rules. This calculation is the same calculation used to determine total compensation for purposes of the 2019 Summary Compensation Table with respect to each of the NEOs.

Ratio (2019)

Median Annual Total Compensation (excluding CEO)	\$ 23,670
CEO Annual Total Compensation	\$10,601,294
Pay Ratio	447 to 1

SEC rules for identifying the median employee and calculating the pay ratio allow companies to apply various methodologies and assumptions and, as a result, the pay ratio reported by us may not be comparable to the pay ratio reported by other companies.

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⁾	725,615 ⁽³⁾⁽⁴⁾	-0-	1,904,539 ⁽⁵⁾⁽⁶⁾
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	725,615	-0-	1,904,539

- (1) This table provides information, as of December 31, 2019, about CHDN Common Stock that may be issued upon the exercise of options and settlement of other equity awards under all compensation plans under which equity securities are reserved for issuance.
- (2) The equity compensation plans of the Company which have been approved by the shareholders of the Company and pursuant to which equity securities are authorized for issuance are the Churchill Downs Incorporated 2000 Employee Stock Purchase Plan ("Stock Purchase Plan") and the Churchill Downs Incorporated 2016 Omnibus Stock Incentive Plan ("2016 Plan").
- (3) Includes 314,097 PSUs and 211,605 RSUs that were outstanding on December 31, 2019 under the 2016 Plan. For purposes of this table, we have included the number of shares issuable under outstanding PSUs assuming performance targets are achieved. Please see the "Compensation Discussion and Analysis" section of this Proxy Statement for further information regarding the 2019 PSUs, including performance metrics applicable to such awards.
- (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 December 31, 2019 and, therefore, none are included in this total for the Stock Purchase Plan.
- (5) Of this total, as of December 31, 2019, 597,050 shares of Common Stock of the Company remained available for future issuance under the Stock Purchase Plan and 1,307,489 shares of Common Stock of the Company remained available for future issuance under the 2016 Plan. Stock awards under the 2016 Plan will be counted against the maximum number of shares as to which stock awards may be granted on a ratio of 1-to-1.
- (6) Excludes 151,974 PSUs that vested on December 31, 2019 with respect to Mr. Carstanjen, Mr. Mudd, and Ms. Dall, but were settled in cash in the first quarter of 2020 upon acceptance by the NEOs of the Committees offer to settle in cash and after certification by the Compensation Committee that the Company achieved the required level of performance. Shares subject to these PSUs became available for future grant under the 2016 Plan upon cash settlement in February 2020.

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.

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, the Louisiana State Racing Commission, the Ohio State Racing Commission, the Maryland Racing Commission, and the Pennsylvania State Horse 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.

On March 6, 2019, The Duchossois Group ("TDG"), through one of its affiliate companies participated in a mezzanine debt financing transaction entered into by Midwest Gaming Holdings, LLC ("MGH"), a majority-owned subsidiary of the Company and the parent company of the entity that owns and operates Rivers Casino in Des Plaines, Illinois (the "Mezzanine Transaction"). The Mezzanine Transaction involved a \$200 million term loan facility for MGH as the borrower and bears interest at LIBOR plus 6.50%, subject to certain exceptions. TDG acquired \$20 million of the term loan via a syndication from the Mezzanine Lender, Canyon Partners. The Company has been advised that TDG's participation in the Mezzanine Transaction was on the same terms and conditions as the other participants in the facility. Our former directors, Richard Duchossois (who retired from the Board effective April 23, 2019), and Craig Duchossois (who retired from the Board effective April 24, 2018), are equity owners in TDG.

Other than as described above, since January 1, 2019, no transaction was identified as a related party transaction.

CHURCHILL DOWNS INCORPORATED AUDIT COMMITTEE REPORT

The following is the report of the Company's Audit Committee (the "Committee"), which consisted of four directors in 2019, each of whom has been determined by the Board of Directors (the "Board") to meet the current standards of the SEC and the Nasdaq exchange to be considered an "independent director." The Board has also determined that two members, Daniel P. Harrington and Karole F. Lloyd, are "audit committee financial experts" as defined by the SEC.

The Committee has an Audit Committee Charter (the "Charter"), which was amended, restated and approved by the Board on February 25, 2020. The Charter sets forth certain responsibilities of the Committee, which include oversight of the integrity of the financial statements of the Company, the systems of internal controls over financial reporting which management has established, the independence and performance of the Company's internal and independent auditors, the Company's compliance with financial, accounting, legal and regulatory requirements, and the effectiveness of the Enterprise Risk Management ("ERM") function. 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 2019; at each of such meetings, the Committee met in executive session with the Company's Vice President of Internal Audit, independent auditors, General Counsel, CFO, and CEO.
- Discussed with the independent auditors all matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board and the SEC.
- 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, 2019.
- 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, if any.
- 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 2019 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 2019, the Committee selected PwC to be reappointed as independent auditors for the calendar year 2019. The Committee also reviewed and approved the estimated 2019 audit fees for services related to the first quarter of 2019 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

Karole F. Lloyd, *Chair*
Ulysses L. Bridgeman, Jr.
Daniel P. Harrington
R. Alex Rankin, *ex officio*

DELINQUENT SECTION 16(a) REPORTS

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 SEC 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 SEC 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, other than with respect to the following late filings of Forms 4: (i) on behalf of William C. Carstanjen reporting one instance of a restricted stock unit award; (ii) on behalf of William E. Mudd reporting one instance of a restricted stock unit award; (iii) on behalf of Marcia A. Dall reporting one instance of a restricted stock unit award; and (iv) on behalf of Austin W. Miller reporting one instance of a restricted stock unit award..

MULTIPLE SHAREHOLDERS SHARING THE SAME ADDRESS

The SEC 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 or Notice addressed to those shareholders. This process, which is commonly referred to as “householding,” 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 “householding” our proxy materials. A single Proxy Statement or Notice 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 “householding” communications to your address, “householding” will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in “householding” and would prefer to receive a separate Proxy Statement or Notice, please notify your broker. You may direct your written request for a copy of the Proxy Statement or Notice to Churchill Downs Incorporated, Attn: Paula Chumbley, 600 N. Hurstbourne Parkway, Ste. 400, Louisville, Kentucky 40222, or at (502) 636-4400. If your broker is not currently “householding” (i.e., you received multiple copies of the Company’s Proxy Statement or Notice), 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 2021 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 11, 2020. Pursuant to the Company's Amended and Restated Bylaws, proposals of shareholders intended to be presented at the Company's 2021 annual meeting of shareholders, but not included in the Proxy Statement, 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 2021 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, 2021, and no sooner than December 23, 2020. 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

R. ALEX RANKIN

Chairman

BRADLEY K. BLACKWELL

Senior Vice President,

General Counsel and Secretary

Louisville, Kentucky
March 10, 2020

PLEASE VOTE BY TELEPHONE OR OVER THE INTERNET
IF YOU CANNOT BE PRESENT IN PERSON



2019 Annual Report on Form 10-K

**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, 2019

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

(Address of principal executive offices)

(Zip Code)

(502) 636-4400

(Registrant's telephone number, including area code)

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

Common Stock, No Par Value	Trading Symbol(s)	The Nasdaq Stock Market LLC
(Title of each class registered)	CHDN	(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 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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 10, 2020, 39,622,384 shares of the Registrant's Common Stock were outstanding. As of June 28, 2019 (based upon the closing sale price for such date on the Nasdaq Global Select Market), the aggregate market value of the shares held by non-affiliates of the Registrant was \$4,000,887,471.

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held on April 21, 2020 are incorporated by reference herein in response to Items 10, 11, 12, 13 and 14 of Part III of Form 10-K.

CHURCHILL DOWNS INCORPORATED
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For the Year Ended December 31, 2019

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Cautionary Statement Regarding Forward-Looking Information

This Annual Report on Form 10-K ("Report") including the information incorporated by reference herein, contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Report are made pursuant to the Act. The reader is cautioned that such forward-looking statements are based on information available at the time and/or management's good faith belief with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. Forward-looking statements are typically identified by the use of terms such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "might", "plan", "predict", "project", "seek", "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 the factors described in Item 1A. Risk Factors of this Report.

PART I

ITEM 1. BUSINESS

A. Introduction

Churchill Downs Incorporated (the "Company", "we", "us", "our") is an industry-leading racing, online wagering and gaming entertainment company anchored by our iconic flagship event - *The Kentucky Derby*. We own and operate Derby City Gaming, a historical racing machine ("HRM") facility in Louisville, Kentucky. We also own and operate the largest online horse racing wagering platform in the U.S., TwinSpires.com, and we operate sports betting and iGaming through our BetAmerica platform in multiple states. We are also a leader in brick-and-mortar casino gaming with approximately 11,000 slot machines and video lottery terminals ("VLTs") and 200 table games in eight states. We were organized as a Kentucky corporation in 1928, and our principal executive offices are located in Louisville, Kentucky.

Acquisitions of Presque Isle Downs and Casino and Lady Luck Casino Nemacolin

On January 11, 2019, we completed the acquisition of Presque Isle Downs and Casino ("Presque Isle") located in Erie, Pennsylvania from Eldorado Resorts, Inc. ("ERI") for cash consideration of \$178.9 million (the "Presque Isle Transaction") and \$1.6 million of working capital and other purchase price adjustments.

On March 8, 2019, the Company assumed management and acquired certain assets related to the management of Lady Luck Casino Nemacolin ("Lady Luck Nemacolin") in Farmington, Pennsylvania, from ERI for cash consideration of \$100,000 (the "Lady Luck Nemacolin Transaction").

Refer to Part II, Item 8. Financial Statements and Supplementary Data, for additional information on the Presque Isle Transaction and the Lady Luck Nemacolin Transaction.

Acquisition of Certain Ownership Interests of Rivers Des Plaines

On March 5, 2019, the Company completed the acquisition of certain ownership interests of Midwest Gaming Holdings, LLC ("Midwest Gaming"), the parent company of Rivers Casino Des Plaines ("Rivers Des Plaines") to acquire approximately 42% of Midwest Gaming from affiliates and co-investors of Clairvest Group Inc. ("Clairvest") and members of High Plains Gaming, LLC ("High Plains"), an affiliate of Rush Street Gaming, LLC, and Casino Investors, LLC ("Casino Investors") for cash consideration of approximately \$406.6 million and \$3.5 million of certain transaction costs and working capital adjustments (the "Sale Transaction"). Following the closing of the Sale Transaction, the parties completed a recapitalization transaction on March 6, 2019 (the "Recapitalization"), pursuant to which Midwest Gaming used approximately \$300.0 million in proceeds from amended and extended credit facilities to redeem, on a pro rata basis, additional Midwest Gaming units held by High Plains and Casino Investors. As a result of the Recapitalization, the Company's ownership of Midwest Gaming increased to 61.3%. High Plains retained ownership of 36.0% of Midwest Gaming and Casino Investors retained ownership of 2.7% of Midwest Gaming.

We also recognized a \$103.2 million deferred tax liability and a corresponding increase in our investment in unconsolidated affiliates related to an entity we acquired in conjunction with our acquisition of the Clairvest ownership stake in Midwest Gaming.

Refer to Part II, Item 8. Financial Statements and Supplementary Data, for additional information on the Sale Transaction and Recapitalization.

Turfway Park Acquisition

The Company completed the acquisition of Turfway Park from Jack Entertainment LLC ("JACK") and Hard Rock International ("Hard Rock") on October 9, 2019 for total consideration of \$46 million in cash ("Turfway Park Acquisition"). Turfway Park is located on 197 acres in Florence, Kentucky. The Company has announced plans and has begun to invest up to \$150.0 million (including the Turfway Park Acquisition total consideration of \$46.0 million) in a state-of-the-art live and historical thoroughbred racing facility at Turfway Park.

Of the \$46.0 million total consideration, \$36.0 million, less \$0.9 million of working capital and purchase price adjustments, was paid to JACK and accounted for as a business combination. The remaining \$10.0 million was paid to Hard Rock for the assignment of the purchase and sale agreement rights and was accounted for separately from the business combination as an intangible asset and was amortized through expense in the fourth quarter of 2019. Refer to Part II, Item 8. Financial Statements and Supplementary Data, for additional information on the Turfway Park Acquisition.

Stock Split

On January 25, 2019, the Company distributed the additional shares resulting from a previously announced three-for-one split (the "Stock Split") of the Company's common stock for shareholders of record as of January 11, 2019. Our common stock began trading at the split-adjusted price on January 28, 2019. All share and per-share amounts in the Company's consolidated financial statements and related notes in Part II, Item 8. Financial Statements and Supplementary Data have been retroactively adjusted for the prior periods to reflect the effects of the Stock Split.

B. Business Segments

During the first quarter of 2019, we realigned our operating segments to reflect the internal management reporting used by our chief operating decision maker to evaluate results of operations and to assess performance and allocate resources. For financial reporting purposes, we aggregate our operating segments into three reportable segments as follows: Churchill Downs, Online Wagering and Gaming. Financial information about these segments is set forth in Part II, Item 8. Financial Statements and Supplementary Data, Note 20 of notes to consolidated financial statements contained within this Report. Further discussion of financial results by segment is provided in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations contained within this Report.

We conduct our business through these reportable segments and report net revenue and operating expense associated with these reportable segments in Part II, Item 8. Financial Statements and Supplementary Data. Effective January 1, 2019, the Company does not allocate corporate and other related expenses to the segments in the accompanying consolidated statements of comprehensive income included in Part II, Item 8. Financial Statements and Supplementary Data. The prior year results in the accompanying consolidated statements of comprehensive income were reclassified to conform to this presentation.

Churchill Downs

The Churchill Downs segment includes live and historical pari-mutuel racing related revenue and expenses at Churchill Downs Racetrack and Derby City Gaming.

Churchill Downs Racetrack is the home of *The Kentucky Derby* and conducts live racing during the year. Derby City Gaming is an HRM facility that operates under the Churchill Downs pari-mutuel racing license at its auxiliary training facility in Louisville, Kentucky.

Churchill Downs Racetrack and Derby City Gaming earn commissions primarily from pari-mutuel wagering on live races at Churchill Downs and on historical races at Derby City Gaming; simulcast fees earned from other wagering sites; admissions, personal seat licenses, sponsorships, television rights, and other miscellaneous services (collectively "racing event-related services"), as well as food and beverage services.

Churchill Downs Racetrack

Churchill Downs Racetrack is located in Louisville, Kentucky and is an internationally known thoroughbred racing operation best known as the home of our iconic flagship event - *The Kentucky Derby*. We have conducted thoroughbred racing continuously at Churchill Downs Racetrack since 1875. *The Kentucky Derby* is the longest continuously held annual sporting event in the United States and is the first race of the annual series of races for 3-year old thoroughbreds known as the Triple Crown.

Our history of increased wagering, along with the attractive demographic profile of our guests and global television viewership are attractive to sponsors and corporate partners, especially those with similar luxury and/or marquee brands. As a result, the Kentucky Derby Week generated the tenth consecutive year of earnings growth in 2019. We conducted 70 live race days in 2017 and 2018; and conducted 74 live racing days in 2019. In 2020, we anticipate conducting up to 72 live race days.

In 2002, as part of the financing of improvements to the Churchill Downs Racetrack facility, we transferred title of the Churchill Downs Racetrack facility to the City of Louisville, Kentucky and entered into a 30-year lease for the facility. Subject to the terms of the lease, we can re-acquire the facility at any time for \$1.00.

Churchill Downs Racetrack is located on 175 acres and has a one-mile dirt track, a 7/8-mile turf track, a stabling area, and a variety of areas, structures, and buildings that provide seating for our patrons. We also own 83 acres of land at our auxiliary training facility, which is five miles from Churchill Downs Racetrack. The facilities at Churchill Downs Racetrack accommodate seating for approximately 59,000 guests. Churchill Downs Racetrack has one of the largest 4K video boards in the world sitting 80 feet above the ground and measuring 171 feet wide by 90 feet tall. This video board provides views of the finish line and the entire race for on-track guests, including those in the infield and guests along the entire front side of the racetrack. The facility also has permanent lighting in order to accommodate night races. We have a saddling paddock and the stable area has barns sufficient to accommodate 1,400 horses and a 114-room dormitory for backstretch personnel. The Churchill Downs Racetrack facility also includes a simulcast wagering facility.

In October 2019, we announced plans to invest \$300.0 million to build a hotel and HRM facility and permanent stadium seating at Churchill Downs Racetrack. The development will transform the area alongside the track at the first turn providing unparalleled VIP guest experiences. The new 156-room, 7-story hotel will include a state-of-the-art 900-machine HRM gaming floor, sports bar, VIP lounge and multiple year-round dining venues.

The development will provide upgraded amenities for 6,700 guests and 5,500 new reserved seats. New hospitality services, including food and beverage services, will be provided to 3,400 guests in the existing Section 111 of the racetrack and to the existing 3,300 guests in the new permanent outdoor stadium seating that will replace the existing grandstand seating.

The 5,500 new reserved seats will be comprised of permanent outdoor stadium seats for 1,400 additional guests, 2,100 guests in the new 2nd floor 27,000 square-foot ballroom and meeting space, and 3rd floor balcony, 1,680 guests on the 3rd – 6th floors in a variety of suites with private balconies, and 320 guests in the 7th floor penthouse suites with balconies that stretch the length of the building.

Our auxiliary training facility provides additional stabling and training facilities sufficient to accommodate 500 horses and a 3/4-mile dirt track.

Derby City Gaming

In September 2018, we opened Derby City Gaming, our 85,000 square-foot, state-of-the-art HRM facility at our Churchill Downs Racetrack auxiliary training facility in Louisville, Kentucky. Derby City Gaming operates under our Churchill Downs Racetrack pari-mutuel racing license, and currently has 1,000 HRMs in service, a simulcast center, and a dining facility.

Online Wagering

The Online Wagering segment includes the revenue and expenses for the TwinSpires business ("TwinSpires") and the online sports betting and iGaming business. Both businesses are headquartered in Louisville, Kentucky.

TwinSpires Business

TwinSpires operates our online horse racing wagering business on TwinSpires.com, BetAmerica.com, and other white-label platforms; facilitates high dollar wagering by international customers ("Velocity"); and provides the Bloodstock Research Information Services ("BRIS") platform for horse racing statistical data.

TwinSpires is the largest legal online horse racing wagering platform in the U.S. TwinSpires accepts pari-mutuel wagers through advance deposit wagering ("ADW") 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. Our business is licensed as a multi-jurisdictional simulcasting and interactive wagering hub in the state of Oregon. We offer our customers streaming video of live horse races, as well as replays, and an assortment of racing and handicapping information. We also provide technology services to third parties, and we earn commissions from white label ADW products and services. Under these arrangements, we typically provide an ADW platform and related operational services while the third-party typically provides a brand name, marketing and limited customer functions.

BetAmerica is an online wagering business licensed under TwinSpires.com, and offers wagering on horse racing throughout the U.S., as well as our brand for retail and online sports betting and iGaming.

Sports Betting and iGaming

Our sports betting and iGaming business operates the BetAmerica sports betting and casino iGaming platform in multiple states, including Mississippi, New Jersey, Indiana, Pennsylvania, and Arkansas. The mobile and online BetAmerica sports betting and casino iGaming results are included in the Online Wagering segment and the retail operations are included in the Gaming segment.

Gaming

The Gaming segment includes revenue and expenses for the casino properties and associated racetrack or jai alai facilities which support the casino license. The Gaming segment has approximately 11,000 slot machines and VLTs and 200 table games located in eight states.

The Gaming segment revenue and Adjusted EBITDA includes the following properties:

- Calder Casino and Racing ("Calder")
- Fair Grounds Slots, Fair Grounds Race Course, and Video Services, LLC ("VSI") (collectively, "Fair Grounds and VSI")
- Harlow's Casino Resort and Spa ("Harlow's")
- Lady Luck Nemaquin management agreement
- Ocean Downs Casino and Racetrack ("Ocean Downs")

- Oxford Casino and Hotel ("Oxford")
- Presque Isle
- Riverwalk Casino Hotel ("Riverwalk")

The Gaming segment Adjusted EBITDA also includes the Adjusted EBITDA related to the Company's equity investments in the following:

- 61.3% equity investment in Rivers Des Plaines
- 50% equity investment in Miami Valley Gaming and Racing ("MVG")

The Gaming segment generates revenue and expenses from slot machines, table games, VLTs, video poker, retail sports betting, ancillary food and beverage services, hotel services, commission on pari-mutuel wagering, racing event-related services, and other miscellaneous operations.

Calder

Calder is located on 170 acres of land in Miami Gardens, Florida near Hard Rock Stadium, home of the Miami Dolphins. Calder owns and operates a 106,000 square-foot casino with approximately 1,100 slot machines and two dining facilities. Calder also has a fronton for jai alai performances, and a one-mile dirt track, a 7/8-mile turf track, barns and stabling facilities for thoroughbred horse racing.

In February 2018, Calder was issued a jai alai permit by the Department of Business & Professional Regulation ("DBPR") Division of Pari-Mutuel Wagering ("DPW") in Florida. In May 2018, Calder received a jai alai license and conducted live summer jai alai performances in May and June 2019 for the State of Florida's 2018-2019 and 2019-2020 fiscal years.

In October 2018, the State of Florida DPW issued two separate Final Orders Granting Declaratory Statement in response to two separate Petitions for Declaratory Statements submitted by Calder regarding jai alai. One of the Declaratory Statements was appealed, but affirmed by the First District Court of Appeals in September 2019.

There are pending administrative challenges filed by various organizations, including Florida Horsemen's Benevolent and Protective Association, Inc., the Florida Thoroughbred Breeders' & Owners' Association, Ocala Breeders' Sales, and SCF, Inc., related to jai alai and the location of the casino with respect to the racing facility.

We have an agreement with the Stronach Group ("TSG") that expires on December 31, 2020 under which we permit TSG to operate and manage Calder's racetrack and certain other racing and training facilities and to provide live horse racing under Calder's racing permits. During the term of the agreement, TSG pays Calder a racing services fee and is responsible for the direct and indirect costs of maintaining the racing premises, including the training facilities and applicable barns, and TSG receives the associated revenue from the operation.

Fair Grounds and VSI

Fair Grounds Slots and Fair Grounds Race Course are located on 145 acres in New Orleans, Louisiana. Fair Grounds Slots owns and operates a 33,000 square-foot slot facility with approximately 600 slot machines, two concession areas, a bar, a simulcast facility, and other amenities. The Fair Grounds Race Course consists of a one-mile dirt track, a 7/8-mile turf track, a grandstand, and a stabling area. The facility includes clubhouse and grandstand seating for approximately 5,000 guests, a general admissions area, and food and beverage facilities. The stable area consists of barns that can accommodate approximately 1,900 horses and living quarters for approximately 130 people. Fair Grounds Race Course also operates pari-mutuel wagering in fourteen off-track betting facilities ("OTBs") and VSI is the owner and operator of approximately 1,000 video poker machines in twelve OTBs in Louisiana.

Harlow's

Harlow's is located on 85 acres of leased land in Greenville, Mississippi. Harlow's owns and operates a 33,000 square-foot casino with approximately 750 slot machines, 15 table games, a retail BetAmerica Sportsbook, a 105-room hotel, a 5,600 square-foot multi-functional event center, and four dining facilities.

Lady Luck Nemacolin

On March 8, 2019, the Company assumed the management of Lady Luck Nemacolin, which is located in Farmington, Pennsylvania, approximately one mile from the Nemacolin Woodlands Resort. Lady Luck Nemacolin operates the casino with approximately 600 slot machines, 27 table games, and a dining facility.

Ocean Downs

Ocean Downs is located on 167 acres near Ocean City, Maryland. Ocean Downs owns and operates a 70,000 square-foot casino with approximately 900 VLTs, 18 table games, and three dining facilities. Ocean Downs also conducts 48 live harness racing days each year.

Oxford

Oxford is located on 97 acres in Oxford, Maine. Oxford owns and operates a 27,000 square-foot casino with approximately 950 slot machines, 30 table games, a 100-room hotel, and three dining facilities.

Presque Isle

On January 11, 2019, the Company completed the acquisition of Presque Isle, which is located on 270 acres in Erie, Pennsylvania. Presque Isle owns and operates a 153,000 square-foot casino with approximately 1,550 slot machines, 34 table games, a retail BetAmerica Sportsbook, a poker room, and four dining facilities. Presque Isle also conducts 100 live thoroughbred racing days each year.

Riverwalk

Riverwalk is located on 22 acres in Vicksburg, Mississippi. Riverwalk owns and operates a 25,000 square-foot casino with approximately 650 slot machines, 15 table games, a retail BetAmerica Sportsbook, a five-story 80-room hotel, and two dining facilities.

Rivers Des Plaines

Rivers Des Plaines is located on 21 acres in Des Plaines, Illinois. Rivers Des Plaines owns and operates a 140,000 square-foot casino with approximately 1,050 slot machines and 66 table games, seven dining and entertainment facilities, and an approximate 5,000 square-foot state-of-the-art BetRivers Sports Bar. Rivers Des Plaines has received approval to become the first land-based casino in Illinois and has begun the expansion of the parking garage which is expected to be completed by the third quarter of 2020. Rivers Des Plaines is also expanding the gaming floor to accommodate additional slot machines and table games authorized under the Illinois expanded gaming legislation signed by the Governor of Illinois in June 2019, which is discussed further below. We acquired 61.3% equity ownership in Midwest Gaming, the parent company of Rivers Des Plaines, in March 2019.

Miami Valley Gaming

MVG is located on 120 acres in Lebanon, Ohio. MVG owns and operates a 186,000 square-foot casino with approximately 1,950 VLTs, four dining facilities, a racing simulcast center, and a 5/8-mile harness racetrack. In October 2019, MVG announced a \$100.0 million expansion plan to build a hotel, parking garage and expanded gaming floor with up to an additional 250 VLTs to be completed in the second quarter of 2021. We have a 50% equity investment in MVG.

All Other

We have aggregated the following businesses as well as certain corporate operations, and other immaterial joint ventures in "All Other" to reconcile to consolidated results:

- Arlington International Race Course ("Arlington")
- United Tote
- Oak Grove Racing and Gaming ("Oak Grove")
- Turfway Park
- Corporate

Arlington

Arlington is located on 336 acres in Arlington Heights, Illinois. Arlington owns and operates a thoroughbred racing operation with eleven OTBs. Arlington has a 1 1/8-mile synthetic track, a one-mile turf track and a 5/8-mile training track. The facility includes a grandstand, clubhouse, and suite seating for 7,500 guests, and dining facilities. The stable area consists of barns that can accommodate 2,200 horses and living quarters for 550 people.

United Tote

United Tote manufactures and operates pari-mutuel wagering systems for racetracks, OTBs and other pari-mutuel wagering businesses. United Tote provides totalisator services which accumulate wagers, record sales, calculate payoffs and display wagering data to patrons who wager on horse races. United Tote has contracts to provide totalisator services to a number of third-party racetracks, OTBs and other pari-mutuel wagering businesses and also provides these services at our facilities.

Oak Grove

Oak Grove is located on 240 acres in Oak Grove, Kentucky, which is approximately one-hour north of Nashville, Tennessee. Oak Grove owns and operates a 5/8-mile harness racing track and completed its first racing meet in October 2019. Oak Grove has begun construction of an HRM facility with up to 1,500 HRMs, a 125-room hotel with an event center and food/beverage venues, a 1,200-person grandstand and event space for indoor events, a 3,000-person capacity outdoor amphitheater and stage, and a state-of-the-art equestrian center. Oak Grove is owned by a joint venture, WKY Development, LLC (“WKY Development”), that is 95% owned by the Company and 5% by Keeneland Association, Inc. (“Keeneland”) as of December 31, 2019.

Turfway Park

The Company completed the acquisition of Turfway Park on October 9, 2019. Turfway Park is located on 197 acres in Florence, Kentucky. The Company has announced plans and has begun to invest up to \$150.0 million (including the Turfway Park Acquisition total consideration of \$46.0 million) in a state-of-the-art live and historical thoroughbred racing facility at Turfway Park.

Corporate

Corporate includes miscellaneous and other revenue, compensation expense, professional fees and other general and administrative expense not allocated to our segments.

C. Competition

Overview

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, fantasy sports and other entertainment and gaming options. Our brick-and-mortar casinos compete with traditional and Native American casinos, video lottery terminals, state-sponsored lotteries and other forms of legalized gaming in the U.S. and other jurisdictions.

Legalized gambling is currently permitted in various forms in many states and Canada. Other jurisdictions could legalize gambling 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 operations could have a material adverse impact on our business.

In May 2018, the United States Supreme Court struck down the 1992 Professional and Amateur Sports Protection Act, which had effectively banned sports wagering in most states. Removal of the ban gives states the authority to authorize sports wagering.

Churchill Downs

In 2019, approximately 36,000 thoroughbred horse races were conducted in the United States. Of these races, Churchill Downs Racetrack hosted approximately 750 races, or 2.1% 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 the racing calendar, number of horses racing and purse sizes. In recent years, competition has increased as more states legalize gaming and allow slot machines at racetracks with mandatory purse contributions. Derby City Gaming competes with regional casinos in the area and other forms of legal and illegal gaming.

Online Wagering

TwinSpires

TwinSpires competes with other ADW businesses for both customers and racing content, as well as brick-and-mortar racetracks, casinos, and OTBs.

Sports Betting and iGaming

Our BetAmerica online sports betting and iGaming business competes for customers with retail and online offerings from commercial brick-and-mortar casinos and racetracks. We also compete with daily fantasy sports gaming companies that are expanding into sports betting and iGaming, international sports betting businesses looking to expand into the U.S. market, and illegal sports betting and iGaming operations.

Gaming

Our Gaming properties operate in highly competitive environments, and our primary competition is other regional casino properties. Our Gaming properties primarily compete for customers with other casinos in their markets and in surrounding regional gaming markets, where location is a critical factor to success. Our Gaming properties compete to a lesser extent with state-sponsored lotteries, off-track wagering, card parlors, online gambling, and other forms of legalized gaming in the U.S.

D. Governmental Regulations and Potential Legislative Changes

We are subject to various federal, state and international laws and regulations that affect our businesses. The ownership, operation and management of our Churchill Downs, Online Wagering, and Gaming segments, as well as our other operations, are subject to regulation under the laws and regulations of each of the jurisdictions in which we operate. The ownership, operation and management of our businesses and properties are also subject to legislative actions at both the federal and state level.

Churchill Downs Regulations

Horse racing is a highly regulated industry. In the United States, 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 horse racing generally do so through a horse racing 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.

The total number of days on which each racetrack conducts live racing fluctuates annually according to each calendar year and the determination of applicable regulatory authorities.

In the United States, interstate pari-mutuel wagering on horse racing is subject to the Interstate Horseracing Act of 1978 ("IHA"), as amended in 2000. Through the IHA, racetracks can commingle wagers from different racetracks and wagering facilities and broadcast horse racing events to other licensed establishments.

Kentucky

In Kentucky, horse racing tracks are subject to the licensing and regulation of the Kentucky Horse Racing Commission ("KHRC"), which is responsible for overseeing horse racing and regulating the state equine industry, and overseeing the annual licensing and operations of HRMs in Kentucky. Licenses to conduct live thoroughbred and standardbred racing meets, to participate in simulcasting, and to accept advance deposit wagers from Kentucky residents are approved annually by the KHRC based upon applications submitted by the racetracks in Kentucky.

Derby City Gaming is subject to extensive state and local legislation and is subject to licensing and regulatory control by the KHRC. Changes in Kentucky laws or regulations may limit or otherwise materially affect the types of HRMs that may be conducted and such changes, if enacted, could have an adverse impact on our Kentucky HRM operations. The failure to comply with the rules and regulations of the KHRC could have a material adverse impact on our business.

TwinSpires Regulations and Potential Legislative Changes

TwinSpires is licensed in Oregon under a multi-jurisdictional simulcasting and interactive wagering totalisator hub license issued by the Oregon Racing Commission and in accordance with Oregon law. We also hold advance deposit wagering licenses in certain other states where required. Changes in the form of new legislation or regulatory activity at the state or federal level could adversely impact our mobile and online ADW business.

Illinois

On June 28, 2019, the Governor of Illinois signed legislation into law that removes the sunset date for advance deposit wagering operations. We believe this legislation will have a positive impact on our business operations.

Sports Betting and iGaming Regulations and Potential Legislative Changes

Federal

In May 2018, the United States Supreme Court struck down the 1992 Professional and Amateur Sports Protection Act, which had effectively banned sports wagering in most states. Removal of the ban gives states the authority to authorize sports wagering. States have begun authorizing sports betting, which we believe will have a positive impact on our business.

In January 2019, the Department of Justice's Office of Legal Counsel ("DJOLC") issued a revised legal opinion regarding the scope of the Interstate Wire Act of 1961 (the "Wire Act"). Under the 2019 revised opinion, the DJOLC states they now believe

the Wire Act applies to all forms of gaming that crosses state lines, including online gambling and online lottery. The new opinion overturned a DJOLC opinion from 2011 which stated the Wire Act applied only to sports betting. We believe the revised DJOLC opinion could have a negative impact on our business operations.

Illinois

On June 28, 2019, the Governor of Illinois signed legislation into law that authorizes sports betting in Illinois. The legislation provides that certain casinos, racetracks, up to three affiliated OTBs, and sports venues that hold more than 17,000 people are authorized to operate sports wagering at brick and mortar locations and online for a certain license fee. We believe this legislation will have a positive impact on our business operations.

Gaming Regulations and Potential Legislative Changes

Casino laws are generally designed to protect casino consumers and the viability and integrity of the casino industry. Casino laws may also be designed to protect and maximize state and local revenue derived through taxes and licensing fees imposed on casino industry participants as well as to enhance economic development and tourism. To accomplish these public policy goals, casino laws establish procedures to ensure that participants in the casino industry meet certain standards of character and fitness. Casino laws also require casino industry participants to:

- Ensure that unsuitable individuals and organizations have no role in casino operations;
- Establish procedures designed to prevent cheating and fraudulent practices;
- Establish and maintain responsible accounting practices and procedures;
- Maintain effective controls over financial practices, including establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenue;
- Maintain systems for reliable record keeping;
- File periodic reports with casino regulators;
- Ensure that contracts and financial transactions are commercially reasonable, reflect fair market value and are arms-length transactions;
- Establish programs to promote responsible gambling and inform patrons of the availability of help for problem gambling; and
- Enforce minimum age requirements.

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

- Adopt rules and regulations under the implementing statutes;
- Interpret and enforce casino laws;
- Impose disciplinary sanctions for violations, including fines and penalties;
- Review the character and fitness of participants in casino operations and make determinations regarding suitability or qualification for licensure;
- Grant licenses for participation in casino operations;
- Collect and review reports and information submitted by participants in casino operations;
- Review and approve transactions, such as acquisitions or change-of-control transactions of casino 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 casino jurisdiction could have a material adverse impact on our casino operations.

Licensing and Suitability Determinations

Gaming laws require us, each of our subsidiaries engaged in casino operations, certain of our directors, officers and employees, and in some cases, certain of our shareholders, to obtain licenses from casino 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 casino 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, casino 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 casino 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 casino operator. Licenses under casino laws are generally not transferable without approval. Licenses in most of the jurisdictions in which we conduct casino 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 impact on our casino operations.

In addition to our subsidiaries engaged in casino operations, casino 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 casino licensee. Our officers, directors and certain key employees must file applications with the casino 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 that 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 casino authorities. In addition to casino authorities' ability to deny a license, qualification or finding of suitability, casino authorities have jurisdiction to disapprove a change in a corporate position.

If one or more casino 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, casino 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 casino authorities, and casino authorities may require such holders to apply for qualification or a finding of suitability. Most casino 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 casino affiliates, or the taking of any other action which casino 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 casino 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 casino 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 voting securities including, if necessary, the immediate purchase of said voting securities for cash at fair market value.

Violations of Gaming Laws

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

Some casino jurisdictions prohibit certain types of political activity by a casino 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 that casino 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 that may be examined by casino 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 casino 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 casino laws.

Review and Approval of Transactions

Substantially all material loans, leases, sales of securities and similar financing transactions must be reported to and in some cases approved by casino authorities. We may not make a public offering of securities without the prior approval of certain casino 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 casino authorities. Entities seeking to acquire control of us or one of our subsidiaries must satisfy casino authorities with respect to a variety of stringent standards prior to assuming control. Gaming authorities may also require controlling shareholders, 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 in connection with our casino operations which are computed in various ways depending on the type of gambling 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 casino revenue received; the number of gambling 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, casino tax rates are graduated such that the tax rates increase as gross casino revenue increases. Tax rates are subject to change, sometimes with little notice, and such changes could have a material adverse impact on our casino operations.

Operational Requirements

In most jurisdictions, we are subject to certain requirements and restrictions on how we must conduct our casino operations. In certain states, we are required to give preference to local suppliers and include minority and women-owned businesses and organized labor in construction projects to the maximum extent practicable. We may be required to give employment preference to minorities, women and in-state residents in certain jurisdictions. 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.

Specific State Gaming Regulations and Potential Legislative Changes

Florida

The ownership and operation of casino gaming facilities in the State of Florida is subject to extensive state and local regulation, primarily by the DBPR, within the executive branch of Florida's state government. The DBPR is charged with the regulation of Florida's pari-mutuel, card room and slot gaming industries, as well as collecting and safeguarding associated revenue 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. Changes in Florida 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 impact on our Florida gaming operation. The laws and regulations of Florida are based on policies of maintaining the health, welfare and safety of the general public and protecting the 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 DBPR could have a material adverse impact on our business.

In Florida, licenses to conduct live thoroughbred racing and to participate in simulcast wagering are approved by the DPW, which 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.

Constitutional Amendment

In November 2018, voters in Florida passed a constitutional amendment which provides any gaming expansion in the state must be approved by 60% of voters.

Illinois

The ownership and operation of casino gaming facilities in the State of Illinois is subject to extensive state and local regulation and is subject to licensing and regulatory control by the Illinois Gaming Board (the "IGB"). The IGB assures the integrity of gambling and gaming in Illinois through regulatory oversight of riverboat and casino gaming, video gaming and sports wagering in Illinois. Changes in Illinois 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 impact on our Illinois gaming operations. The failure to comply with the rules and regulations of the IGB could have a material adverse impact on our business.

On June 28, 2019, the Governor of Illinois signed legislation into law that expands gaming opportunities in Illinois. The legislation provides that existing casinos can expand from 1,200 gaming positions to up to 2,000 gaming positions, authorizes licenses for six new casinos in Illinois, authorizes slots at the Chicago airports, authorizes a certain number of gaming positions at racetracks in Illinois, and authorizes certain tax credits. We believe this legislation will have a positive impact on our business operations.

Louisiana

The manufacturing, 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 manufacturing, distribution, servicing and operation of video poker devices and slot machines are governed by the Louisiana Gaming Control Board (the "Louisiana Board") which oversees all licensing for all forms of legalized gaming in Louisiana. 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 performs the video poker and slots gaming investigative functions for the Louisiana Board. The laws and regulations of Louisiana are based on policies of maintaining the health, welfare and safety of the general public and protecting the 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. Changes in Louisiana 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 impact on our Louisiana gaming operations. 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 or the LSRC could have a material adverse impact on our business.

In Louisiana, licenses to conduct live thoroughbred and quarter horse racing and to participate in simulcast wagering are approved by the Louisiana State Racing Commission ("LSRC"). The LSRC is responsible for overseeing the awarding of licenses for the conduct of live racing meets, the conduct of thoroughbred and quarter horse racing, the types of wagering that 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 thoroughbred racing at a licensed racetrack for at least 80 days over a 20 week period each year to maintain the license and to conduct slot operations.

Louisiana law requires live quarter horse racing to be conducted at the racetrack with the addition of the slot machines at Fair Grounds. We conducted quarter horse racing at Fair Grounds for 10 days in each of 2017, 2018, and 2019. We expect to conduct quarter horse racing for 10 days in 2020.

Maine

The ownership and operation of casino gaming facilities in the State of Maine is subject to extensive state and local regulation and is subject to licensing and regulatory control by 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 revenue and 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 impact on 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.

Maryland

The ownership and operation of casino gaming facilities in the State of Maryland is subject to extensive state and local regulation and is subject to licensing and regulatory control by the Maryland Lottery and Gaming Control Commission (“MLGCC”), with staff assistance from the Maryland Lottery and Gaming Control Agency (“MLGCA”). The MLGCA oversees all internal controls, auditing, security, surveillance, background investigations, licensing and accounting procedures for each casino in the State of Maryland, including Ocean Downs. Changes in Maryland 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 impact on our Maryland gaming operations. The failure to comply with the rules and regulations of the MLGCC could have a material adverse impact on our business.

Mississippi

The ownership and operation of casino gaming facilities in the State of Mississippi is subject to extensive state and local regulation, including 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 revenue, 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 revenue 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 impact on 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.

Ohio

In 2012, the Governor of Ohio signed an Executive Order 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. The laws, regulations and supervisory procedures of the OLC include: (1) regulating the licensing of video lottery sales agents, key gaming employees and VLT manufacturers; (2) collecting and disbursing VLT revenue; and (3) maintaining compliance in regulatory matters. Changes in Ohio 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 impact on our Ohio gaming operations. The failure to comply with the rules and regulations of the OLC could have a material adverse impact on our business.

Pennsylvania

The ownership and operation of casino gaming facilities in the Commonwealth of Pennsylvania are subject to extensive state and local regulation and are subject to licensing and regulatory control by the Pennsylvania Gaming Control Board ("PGCB") as well as other agencies. The PGCB regulates, oversees and enforces all matters related to gaming activity in Pennsylvania, including, without limitation, operations, internal controls, accounting procedures, auditing, security, surveillance, licensing, background investigations and compliance of each casino in the state. Changes in Pennsylvania 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 impact on our Pennsylvania gaming operations. The failure to comply with the rules and regulations of the PGCB could have a material adverse impact on our business.

In Pennsylvania, licenses to conduct live thoroughbred racing, to participate in simulcast wagering and to accept advance deposit wagers from Pennsylvania residents are approved by the Pennsylvania State Horse Racing Commission ("PSHRC"). The PSHRC regulates the operations of horse racing, the conduct of pari-mutuel wagering and the promotion and marketing of horse racing in Pennsylvania. As a Category 1 slot machine licensee, Presque Isle is required to conduct live racing on at least 100 days each calendar year. The PSHRC approved Presque Isle for 100 live race days in 2019 and 2020.

Other Specific State Regulations and Potential Legislative Changes

Illinois

In Illinois, licenses to conduct live thoroughbred racing and to participate in simulcast wagering are approved by the Illinois Racing Board ("IRB"). The IRB appointed Arlington the dark host track for 60 simulcast host days in 2019 and 2020. Arlington was also awarded 155 live host days in 2019 and 2020.

E. 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 ("EPA") 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 and sanitary water discharges. CAFO and other water discharge regulations include permit requirements and water quality discharge standards. Enforcement of these regulations has been receiving increased governmental attention. Compliance with these and other environmental laws can, in some circumstances, require significant capital expenditures. 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 may 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 EPA regarding alleged CAFO non-compliance at Fair Grounds Race Course. On October 21, 2019, we reached an agreement in principle, subject to final agreement and regulatory and court approval. If approved, the agreement will include a \$2.8 million penalty, which has been accrued and is included in selling, general and administrative expense in our accompanying consolidated statement of comprehensive income for the year ended December 31, 2019, and in accrued expense and other current liabilities in our accompanying consolidated balance sheet at December 31, 2019.

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. 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.

F. 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.

G. Employees

As of December 31, 2019, we employed approximately 5,500 full-time and part-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.

H. 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.

ITEM 1A. RISK FACTORS

Risks Related to the Company

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock.

Our business is sensitive to economic conditions which may affect consumer confidence, consumers' discretionary spending, or our access to credit in a manner that adversely impacts our operations

Economic trends can impact consumer confidence and consumers' discretionary spending, including:

- Negative economic conditions and the persistence of elevated levels of unemployment can impact consumers' disposable incomes and, therefore, impact the demand for entertainment and leisure activities.
- Declines in the residential real estate market, increases in individual tax rates and other factors that we cannot accurately predict may reduce the disposable income of our customers.
- Decreases in consumer discretionary spending could affect us even if such decreases occur 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.

Lower consumer confidence or reductions in consumers' discretionary spending could result in fewer patrons spending money at our racetracks, our online wagering sites and gaming and wagering facilities, and reduced consumer spending overall.

Our access to and the cost of credit may be impacted to the extent global and U.S. credit markets are affected by downward economic trends. Economic trends can also impact the financial viability of other industry constituents, making collection of amounts owed to us uncertain. Our ability to respond to periods of economic contraction may be limited, as certain of our costs remain fixed or even increase when revenue declines.

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 laws affecting the horse racing, online wagering and casino industries. 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. We are subject to tax in multiple U.S. tax jurisdictions and judgment is required in determining our provision for income taxes, deferred tax assets or liabilities and in evaluating our tax positions. It is not possible to determine the likelihood, extent or impact of any future changes in tax laws or fees, or changes in the administration of such laws; however, if enacted, such changes could have a material adverse impact on our business.

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

Horse racing, pari-mutuel wagering and casino gaming businesses depend on the public perception of integrity and fairness in their operations. To prevent cheating or erroneous payouts, necessary oversight processes must be in place to ensure that such activities cannot be manipulated. A lack or loss of confidence in the fairness of our industries could have a material adverse impact on our business.

Acts of fraud or cheating in our gaming businesses through the use of counterfeit chips, covert schemes and other tactics, possibly in collusion with our employees, may be attempted or committed by our gaming customers with the aim of increasing their winnings. Our gaming customers, visitors and employees may also commit crimes such as theft in order to obtain chips not belonging to them. We have taken measures to safeguard our interests including the implementation of systems, processes and technologies to mitigate against these risks, extensive employee training, surveillance, security and investigation operations and adoption of appropriate security features on our chips such as embedded radio frequency identification tags. Despite our efforts, we may not be successful in preventing or detecting such culpable behavior and schemes in a timely manner and the relevant insurance we have obtained may not be sufficient to cover our losses depending on the incident, which could result in losses to our gaming operations and generate negative publicity, both of which could have an adverse effect on our reputation, business, results of operations and cash flows.

Other factors that could influence our reputation include the quality of the services we offer and our actions with regard to social issues such as diversity, human rights and support for local communities. Broad access to social media makes it easy for anyone to provide public feedback that can influence perceptions of us or our properties. It may be difficult to control or effectively manage negative publicity, regardless of whether it is accurate. Negative events and publicity could quickly and

materially damage perceptions of us, our properties, or our industries, which, in turn, could adversely impact our business, financial condition or results of operations through loss of customers, loss of business opportunities, lack of acceptance of our company to operate in host communities, employee retention or recruiting difficulties or other difficulties.

An inability to attract and retain key and highly-qualified and skilled personnel could impact our ability to successfully develop, operate, and grow our business

We believe that our success depends in part on our ability to hire, develop, motivate and retain highly-qualified and skilled employees throughout our organization. If we do not successfully hire, develop, motivate and retain highly qualified and skilled employees, it is likely that we could experience significant disruptions in our operations and our ability to successfully develop, operate, and grow our business could be impacted.

Competition for the type of talent we seek to hire is increasingly intense in the geographic areas in which we operate. As a result, we may incur significant costs to attract and retain highly skilled employees. We may be unable to attract and retain the personnel necessary to sustain our business or support future growth.

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, or the gaming authorities may require us to terminate the employment of any person who refuses to file appropriate applications. Either result could significantly impact our operations.

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

Our debt facilities contain a number of covenants that impose significant operating and financial restrictions on our business, including restrictions on our ability to, among other things, take the following actions:

- 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.

Any failure to comply with the financial ratios and other covenants in our debt facilities and other indebtedness could have a material adverse impact on our business

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 as a result, we may be unable to meet those ratios. A failure to comply with the financial ratios and other covenants contained in our debt facilities or our other indebtedness could result in an event of default which, if not cured or waived, could have a material adverse impact on our business and financial condition. 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 could terminate all commitments to extend further credit; or
- could require us to apply all of our available cash to repay these borrowings.

We have pledged a significant portion of our assets as collateral under our debt facilities. If any of these lenders accelerate the repayment of borrowings, we may not have sufficient assets to repay our indebtedness and our lenders could exercise their rights against the collateral we have granted them.

Ownership and development of our real estate requires significant expenditures and ownership of such properties is subject to risk, including risks related to environmental liabilities

We own extensive real estate holdings and make significant capital investments to grow our operations. All real estate investments are subject to risks including the following: 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. Significant expenditures, including property taxes, debt repayments, maintenance costs, insurance costs and related charges, must be made throughout the period of ownership of real property. Such expenditures may negatively impact our operating results.

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. Some of our facilities are subject to CAFO regulations. 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. We recently incurred such a penalty in connection with alleged CAFO non-compliance at Fair Grounds Race Course, as further discussed in Item 3, Legal Proceedings. Enforcement of such regulations have been receiving increased governmental attention and compliance with these and other environmental laws can, in some circumstances, require significant capital expenditures (including with respect to fines).

Our operations rely heavily on technology services, and catastrophic events and system failures with respect to these technology services could cause a significant and continued disruption to our operations

We rely on information technology and other systems to manage our business. A disruption or failure in our technology systems or operations in the event of a cyber-attack, major earthquake, weather event, 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. Security breaches could expose the Company to a risk of loss or misuse of our or our customers' information, litigation and potential liability. In addition, cyber incidents that impact the availability, reliability, speed, accuracy or other proper functioning of our technology systems could impact our operations. A significant cyber incident, including system failure, security breach, disruption by malware or other damage could interrupt or delay our operations, result in a violation of applicable privacy and other laws, damage our reputation, subject us to litigation, cause a loss of customers or give rise to remediation costs, monetary fines and other penalties, which could be significant.

Our online wagering, HRM and brick-and-mortar casino businesses depend upon our communications hardware and our computer hardware. We have built certain redundancies into our systems to attempt to avoid downtime in the event of outages, system failures or damage. Our systems also 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 websites and our services could result in an immediate, and possibly substantial, loss of revenue.

Our business is subject to online security risk, including cyber-security breaches. Loss or misuse of our stored information as a result of such a breach, including customers' personal information, could lead to government enforcement actions or other litigation, potential liability, or otherwise harm our business

We receive, process, store and use personal information and other customer and employee data by maintaining and transmitting customers' personal and financial information, credit card settlements, credit card funds transmissions, mailing lists and reservations information. Our collection of such data is subject to extensive regulation by private groups, such as the payment card industry, as well as governmental authorities, including gaming authorities.

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, and such privacy laws and regulations continue to evolve. 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 implement. California has adopted the California Consumer Privacy Act of 2018 (the "CCPA"), which went into effect on January 1, 2020, providing California consumers greater control of the information collected, stored, and sold, and other states are considering similar legislation. The CCPA provides a private right of action (in addition to statutory damages) for California residents whose sensitive personal information was breached as a result of a business's violation of its duty to reasonably secure such information. The costs of compliance with these laws may increase as a result of changes in interpretation or changes in law. Any failure on our part to comply with these laws or our privacy policies may subject us to significant liabilities, including governmental enforcement actions or litigation.

Our 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, may not be successful. Interruptions in our services or a breach of a customer's secure data could cause current or potential users to believe that our systems are unreliable, which could permanently harm our reputation and brand. These interruptions could also increase the burden on our engineering staff, which, in turn, could delay our introduction of new features and services on our websites and in our casinos. Such incidents could give rise to remediation costs, monetary fines and other penalties, which could be significant. We attempt to protect against this risk with our property and business interruption insurance, which covers damage or interruption of our systems, although there is no assurance that such insurance will be adequate to cover all potential losses.

Third-parties we work with, such as vendors, may violate applicable laws or our privacy policies, and such violations may also put our customers' information at risk and could in turn have an adverse impact on our business. We are also subject to payment card association rules and obligations under each association's contracts with payment card processors. Under these rules and obligations, if information is compromised, we could be liable to payment card issuers for the associated expense and penalties. If we fail to follow payment card industry security standards, even if no customer information is compromised, we could incur significant fines or experience a significant increase in payment card transaction costs.

Security breaches, computer malware and computer hacking attacks have become more prevalent in our industry, and hackers and data thieves are increasingly sophisticated and operate large-scale and complex automated attacks. Many companies, including ours, have been the targets 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. 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.

The costs to eliminate or address the foregoing security threats and vulnerabilities before or after a cyber-incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays or cessation of service, and loss of existing or potential suppliers or customers. As threats related to cyber-attacks develop and grow, we may also find it necessary to make further investments to protect our data and infrastructure, which may impact our results of operations. We have insurance coverage for protection against cyber-attacks, which is designed to cover expenses around notification, credit monitoring, investigation, crisis management, public relations, and legal advice. This insurance coverage may not be sufficient to cover all possible claims, and we could suffer losses that could have a material adverse effect on our business.

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.

The extent to which we can recover under our insurance policies for damages sustained at our operating properties in the event of inclement weather and casualty events could adversely affect our business

Flooding, blizzards, windstorms, earthquakes, hurricanes or other weather conditions could adversely affect our casino and horse racing locations. We maintain insurance coverage that may cover certain costs that we incur as a result of some natural disasters, which coverage is subject to deductibles, exclusions and limits on maximum benefits. We may not 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 our operations are disrupted or face prolonged closure as a result of weather conditions in the future, or if weather conditions adversely impact general economic or other conditions in the areas in which our properties are located or from which we draw our patrons, the disruption could have a material adverse impact on our business.

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). Our level of property insurance coverage, which is subject to policy maximum limits and certain exclusions, 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. Any losses we incur that are not adequately covered by insurance may decrease our future operating income, require us to fund replacements or repairs for destroyed property and reduce the funds available for payment of our obligations.

Our insurance costs may increase and we may not be able to obtain similar insurance coverage in the future

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 additional exclusions from our coverage. If we are unable to obtain sufficient insurance coverage, we could be at risk for increased potential losses, which could be substantial. In addition, our debt instruments and other material agreements require us to meet certain standards related to insurance coverage. If we are unable to obtain sufficient insurance coverage to satisfy these requirements, an event of default could result under these debt instruments or material agreements.

Furthermore, portions of our business are difficult or impracticable to insure. Therefore, after carefully weighing the costs, risks, and benefits of retaining versus insuring various risks, as well as the availability of certain types of insurance coverage, we may opt to retain certain risks not covered by our insurance policies. Retained risks are associated with deductible limits or self-insured retentions, partial self-insurance programs and insurance policy coverage ceilings.

We may not be able to identify and complete expansion, acquisition 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 such acquisition or development projects. As described in further detail below, new developments or acquisitions may not be completed or integrated successfully. The divestiture of existing businesses may be affected by our ability to identify potential buyers. Current or future regulation may postpone a divestiture pending certain resolutions to federal, state or local legislative issues. New properties or developments may not be completed or integrated successfully.

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 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, manage the combined operations or realize projected revenue gains, cost savings and synergies in connection with those acquisitions on the timetable contemplated, if at all. Management of the new business operations, especially those in new lines of business or different geographic areas, may require that we increase our managerial resources. The process of integrating new operations may also interrupt the activities of those businesses, which could have a material adverse impact on our business. The costs of integrating businesses we acquire could significantly impact our short-term operating results. These costs could include the following:

- restructuring charges associated with the acquisitions;
- non-recurring transaction 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 and operating, administrative and information systems.

We perform financial, operational and legal diligence on the businesses we purchase; however, 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 that include the following:

- the risk that the acquired business may not further our business strategy or that we paid more than the business was worth;
- the risk that the financial performance of the acquired business declines or fails to meet our expectations from and after the date of acquisition;
- 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.

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

We may decide to develop, construct and open hotels, casinos, other gaming venues, or racetracks in response to opportunities that may arise. Future development projects may require significant capital commitments and the incurrence of additional debt, which could have a material adverse impact on our business.

We are subject to significant risks associated with our equity investments, strategic alliances and other third-party agreements

We pursue certain license opportunities, development projects and other strategic business opportunities through equity investments, joint ventures, license arrangements and other alliances with third-parties.

Our equity investments are governed by mutually established agreements that we entered into with our co-investors and therefore, we do not unilaterally control the applicable entity or other initiatives. The terms of the equity investments and the rights of our co-investors may preclude us from taking actions that we believe to be in the best interests of the Company. Disagreements with our co-investors could result in delays in project development, including construction delays, and ultimate failure of the project. Our co-investors also may not be able to provide capital to the applicable entity on the terms agreed to or at all, and the applicable entity may be unable to obtain external financing to finance its operations. Also, our ability to exit the equity investments may be subject to contractual and other limitations.

With any third-party arrangement, there is a risk that our partners' economic, business or legal interests or objectives may not be aligned with ours, leading to potential disagreements and/or failure of the applicable project or initiative. We are also subject to risks relating to our co-investors' failure to satisfy contractual obligations, conflicts arising between us and any of our partners and changes in the ownership of any of our co-investors.

Any of these risks could have a material adverse impact on our business.

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

Our Online Wagering and Gaming segments are characterized by the rapid development of new technologies and the 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. It may be difficult 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.

We may inadvertently infringe on the intellectual property rights of others

In the course of our business, we may become aware of potentially relevant patents or other intellectual property rights held by other parties, and such other parties may allege that we are infringing, misappropriating or otherwise violating their intellectual property rights. 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.

We may be unable to adequately protect our own intellectual property rights, which could adversely affect our business and results of operations

Our results of operations 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 used in our products, including in the areas of advance deposit wagering could be costly and time consuming and could divert our management and key personnel from our business operations.

Some of our businesses are based upon the creation, acquisition, use and protection of intellectual property. Some of this intellectual property is in the form of software code, patented and other technologies and trade secrets that we use to develop and market our businesses. We rely on trademark, copyright and patent law, trade secret protection and contracts to protect our intellectual property rights. If we are not successful in protecting these rights, the value of our brands and our business could be adversely impacted.

We take significant measures to protect the secrecy of large portions of our source code. If unauthorized disclosure 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.

Competitors may devise new methods of competing with us which may not be covered by our patents or patent applications. Our patent applications may not be approved, the patents we have may not adequately protect our intellectual property or ongoing business strategies and our patents may be challenged by third parties or found to be invalid or unenforceable.

Effective trademark, service mark, copyright and trade secret protection may not be available in every country.

The laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States; therefore, we may be unable to protect our intellectual property and proprietary technologies adequately against unauthorized copying or use in certain jurisdictions.

We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material to third parties. These licensees may take actions that could diminish the value of our proprietary rights or harm our reputation, even if we have agreements prohibiting such activity. To the extent third parties are obligated to indemnify us for breaches of our intellectual property rights, these third parties may be unable to meet these obligations. Any of these events could harm our business and results of operations.

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 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 or debit cards, or other forms of payment from customers which could have a material adverse impact on our business.

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 online gaming losses through chargebacks. Our control procedures to protect from chargebacks 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, other similar laws and regulations, or applicable anti-money laundering regulations could have a negative impact on us

We are subject to risks associated with doing business outside of the United States, including exposure to complex foreign and U.S. regulations such as the Foreign Corrupt Practices Act (the "FCPA") and other anti-corruption laws which generally prohibit U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business. Violations of the FCPA and other anti-corruption laws may result in severe criminal and civil sanctions and other penalties. It may be difficult to oversee the conduct of any contractors, third-party partners, representatives or agents who are not our employees, potentially exposing us to greater risk from their actions. If our employees or agents fail to comply with applicable laws or company policies governing our international operations, we may face legal proceedings and actions which could result in civil penalties, administration actions and criminal sanctions.

Any determination that we have violated any anti-corruption laws could have a material adverse impact on our business. 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.

We face risks related to pending or future legal proceedings and other actions

From time to time, we are a party in various lawsuits and judicial and governmental actions in the ordinary course of business. No assurance can be provided as to the outcome of these lawsuits and actions which can be expensive and time consuming. We may not be successful in the defense or prosecution of these lawsuits or actions, which could result in settlements, costs or damages that could have a material adverse impact on our business, financial condition, results of operations, and reputation. Such matters may include investigations or litigation from various parties, including vendors, customers, state and federal agencies, stockholders and employees relating to intellectual property, employment, consumer, personal injury, corporate governance, commercial or other matters arising in the ordinary course of business. We have been subject to claims in cases concerning class action allegations. Plaintiffs in class action lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss and defense costs relating to such lawsuits may not be accurately estimated. We evaluate all of the claims and proceedings involving us to assess the expected outcome, and where possible, we estimate the amount of potential losses to us. In many cases, including class action matters, we may not be able to estimate the amount of potential losses and/or our estimates may prove to be insufficient. These assessments are made by management based on the information available at the time made and require the use of a significant amount of judgment, and actual outcomes or losses may materially differ. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, such litigation may be expensive to defend and may divert resources away from our operations and negatively impact earnings. Further, we may not be able to obtain adequate insurance to protect us from these types of litigation matters or extraordinary business losses.

Our operations in certain jurisdictions depend on agreements with industry constituents including horsemen and other racetracks, and the failure to enter into or maintain these agreements on terms acceptable to us could have a material adverse effect on our business, results of operations and financial condition

Our operations in certain jurisdictions depend on agreements with third parties. If we are unable to renew these agreements on satisfactory terms as they expire, our business may be disrupted. For example, the Interstate Horseracing Act, 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. 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, the Horsemen's Groups 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, as such failure will result in our inability to conduct live racing and export and import simulcasting.

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 have withheld their consent to send or receive racing signals among racetracks. 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.

We also have written agreements with certain Horsemen's Groups with regards to the proceeds of gaming machines in Louisiana, Florida, and Kentucky. Florida law requires Calder to have an agreement with the FHBPA governing the contribution of a portion of revenue from slot machine gaming to purses on live thoroughbred races conducted by TSG at Calder and an agreement with the Florida Thoroughbred Breeders and Owners Association governing the contribution of a portion of revenue from slot machine gaming to breeders' stallion and special racing awards on live thoroughbred races conducted by Calder before receiving a license to conduct slot machine gaming.

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, OTBs, and ADWs. From time to time, we may be 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, results of operations and financial condition.

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

Some of our employees are represented by labor unions. A strike or other work stoppage at one of our properties could have an adverse impact 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 may experience additional union activity in the future. Any such union organization efforts could cause disruptions in our business and result in significant costs.

Risks Related to Our Churchill Downs Segment

Our Churchill Downs Racetrack and the Kentucky Derby may be adversely affected by changes in consumer preferences, attendance, wagering, and sponsorships

Our Churchill Downs Racetrack is dependent upon the number of people attending and wagering on live horse races. According to industry sources, pari-mutuel handle declined on average 3% per year from 2008 to 2016 due to a number of factors, including increased competition from other wagering and entertainment alternatives. From 2016 to 2019, pari-mutuel handle on horse racing has been relatively stable with average annual growth of 2%. If interest in horse racing is lower in the future, it may have a negative impact on revenue and profitability in our Churchill Downs segment. If attendance at and wagering on live horse racing declines, it could have a material adverse impact on our business.

The number and level of sponsorships are important to the success of the the Kentucky Derby. Our ability to retain sponsors, acquire new sponsors, and complete for sponsorships and advertising dollars could have a material adverse impact on our business.

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

Personal injuries and injuries to horses have occurred during races or workouts, and may continue to occur, which could subject us to litigation. We carry insurance at Churchill Downs Racetrack and each of our other racetracks; however, there are certain exclusions. 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 of operations may be affected by the outcome of litigation, as it could be costly and time consuming and could divert our management and key personnel from our business operations.

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

We have a limited number of live racing days at Churchill Downs Racetrack, and the number of live racing days could vary from year to year. A significant portion of our racing revenue is generated during the Kentucky Derby and Oaks week. If a business interruption were to occur and continue for a significant length of time, particularly one occurring at Churchill Downs Racetrack at a time that would affect the Kentucky Derby and Oaks week, it could have a material adverse impact on our business.

Since horse racing is conducted outdoors, unfavorable weather conditions, including extremely high and low temperatures, heavy rains, high winds, storms, tornadoes and hurricanes, could cause events to be canceled and/or attendance to be lower, resulting in reduced wagering. Climate change could have an impact on longer-term natural weather trends. Extreme weather events that are linked to rising temperatures, changing global weather patterns, sea, land and air temperatures, as well as sea levels, rain and snow could result in increased occurrence and severity of adverse weather events. 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, it could have a material adverse impact on our business.

Our business could be adversely affected by the occurrence of extraordinary events, such as terrorist attacks and public health threats

The success of the Kentucky Derby and Oaks week is dependent upon the willingness and ability of patrons to attend events at Churchill Downs Racetrack, which is subject to the occurrence and threat of extraordinary events that may discourage attendance, decrease revenue, or expose us to substantial liability. Terrorist activity, including acts of domestic terrorism, or other actions that discourage attendance at other locations, or even the threat of such activity, including public concerns regarding air travel, military actions and additional national or local catastrophic incidents, could result in reduced attendance at Churchill Downs Racetrack. A major epidemic or pandemic, or the threat of such an event, could also adversely affect attendance at Churchill Downs Racetrack and could impact the supply chain for our major construction projects resulting in higher costs and delays of the projects. While we are constantly evaluating the security precautions in an effort to ensure the safety of the public, no security measures can guarantee safety and there can be no assurances of avoiding potential liabilities. The occurrence or threat of any such extraordinary event at Churchill Downs Racetrack could result in a material negative effect on our business and results of operations.

Our Churchill Downs segment operations are highly regulated and changes in the regulatory environment could adversely affect our business

Our Churchill Downs segment is subject to extensive state and local regulation, and we depend on continued state approval of legalized pari-mutuel wagering in states where we operate. Our wagering and racing (including HRM) facilities must meet the licensing requirements of various regulatory authorities. To date, we have obtained all governmental licenses, registrations, permits and approvals necessary for operation. However, we may be unable to maintain our existing licenses. The failure to obtain such licenses in the future or the loss of or material change in our business licenses, registrations, permits or approvals may materially limit the number of races we conduct or our racing (including HRM) operations, and could have a material adverse impact on our business. In addition, the loss of a license in one jurisdiction could trigger the loss of a license or affect our eligibility for a license in another jurisdiction.

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 impact on our business.

Regulatory authorities also have input into important aspects of our operations, including hours of operation, location or relocation of a facility, and numbers and types of HRMs. Regulators may also levy substantial fines against or seize our assets or the assets of our subsidiaries or the people involved in violating pari-mutuel laws or regulations. Any of these events could have an adverse impact on our business.

Our Churchill Downs segment faces significant competition, and we expect competition levels to increase

Churchill Downs Racetrack and Derby City Gaming 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, VLTs, state-sponsored lotteries, sports wagering, and other forms of legalized and non-legalized gaming in the U.S. and other jurisdictions.

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 revenue for race purses and capital improvements.

Competition from web-based businesses presents additional challenges. Unlike most online and web-based gaming companies, Churchill Downs and our other racetracks require significant and ongoing capital expenditures for both continued operations and expansion. Churchill Downs Racetrack also faces significantly greater operating costs compared to costs borne by online and web-based gaming companies. Our racing business cannot offer the same number of gaming options as online and Internet-based gaming companies. 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.

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

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 horse races. Our ability to attract full fields depends on several factors, including our ability to offer and fund competitive purses and 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. If Churchill Downs Racetrack is faced with a sustained outbreak of a contagious equine disease, it could have a material impact on our profitability. 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.

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 horse races. The failure to keep technology current could limit our ability to serve patrons effectively, limit our ability to 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 horse racing. A totalisator system failure could cause a considerable loss of revenue if wagering is unavailable for a significant period of time or during an event with high betting volume.

United Tote also has licenses and 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.

Risks Related to Our TwinSpires Business

Our online horse racing wagering business is highly regulated and changes in the regulatory environment could adversely affect our business

TwinSpires accepts ADWs from customers of certain states who set up and fund accounts from which they may place wagers via telephone, mobile device or through the Internet pursuant to the Interstate Horseracing Act and relevant licenses and consents. The online horse racing wagering business is heavily regulated, and laws governing ADW vary from state to state. Some states have expressly authorized ADW by residents, some states have expressly prohibited pari-mutuel wagering and/or ADW and other states have expressly authorized pari-mutuel wagering but have neither expressly authorized nor expressly prohibited residents of the state from placing wagers through ADW hubs located in different states. We believe that an online horse racing wagering 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 prohibited by statute, regulations, or other governmental restrictions. However, state attorneys general, regulators, and other law enforcement officials may interpret state 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 ADW.

Our expansion opportunities with respect to ADW may be limited unless more states amend their laws or regulations to permit ADW. Conversely, if states take affirmative action to make ADW expressly unlawful, this could have a material adverse impact on our business. For example, we ceased accepting wagers from Texas residents in September 2013 due to the enforcement of a Texas law prohibiting ADW. Legal challenges and 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 online horse racing wagering business or in any legal challenge to the validity of any restrictions on ADW. From time to time, 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 ADW.

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 or increase competition for online wagering. 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. 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 ADW operations.

Our TwinSpires business may be adversely affected by the number of people wagering on live horse races

Our TwinSpires business is dependent on wagering on live horse races at our racetracks and third-party racetracks. According to industry sources, pari-mutuel handle declined on average 3% per year from 2008 to 2016 due to a number of factors, including increased competition from other wagering and entertainment alternatives. From 2016 to 2019, pari-mutuel handle on horse racing has been relatively stable with average annual growth of 2%. If interest in horse racing is lower in the future, it may have a negative impact on revenue and profitability in our Online Wagering segment. If attendance at and wagering on live horse racing declines, it could have a material adverse impact on our business.

Our TwinSpires business faces strong competition and we expect competition to increase

Our TwinSpires 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 mobile and online wagering business is a key factor in our ability to compete with other ADW businesses. Some of our competitors may have greater resources than we do. We may also be unable to retain our core customer base if we fail to continue to offer robust content offerings and other popular features. We anticipate increased competition in our mobile and online business from various other forms of online gaming, and our potential inability to retain customers or our failure to attract new customers could adversely affect our business.

Our TwinSpires business is subject to a variety of laws, many of which are unsettled and still developing and which could subject us to claims or otherwise harm our business

We are subject to a variety of laws, 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. Laws relating to the liability of providers of online services for activities of 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 or new 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. 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.

Risks Related to Our Sports Betting and iGaming Business

Our ability to predict and capitalize on the legalization of online sports betting and iGaming in the United States may impact our business, and we expect that competition will continue to grow and intensify

A number of states have passed or are currently considering passing online sports betting and iGaming legislation. If a large number of additional states or the federal government enact online sports betting or iGaming legislation and we are unable to obtain, or are otherwise delayed in obtaining, the necessary licenses to operate online sports betting or iGaming websites in United States jurisdictions where such games are legalized, our future growth in online sports betting and iGaming could be materially impaired.

States or the federal government may prevent online sports betting and iGaming or legalize online sports betting and iGaming in a manner that is unfavorable to us. If, like Nevada and New Jersey, state jurisdictions enact legislation legalizing online sports betting and iGaming subject to a brick-and-mortar requirement, we may be unable to offer online sports betting and iGaming in such jurisdictions if we are unable to establish an affiliation with a brick-and-mortar casino in such jurisdiction on acceptable terms.

We expect that we will face increased competition for online sports betting and iGaming as the potential for legalized online sports betting and iGaming continues to grow. In the online sports betting and iGaming industry, a "first mover" advantage exists. Our ability to compete effectively in respect of a particular style of online sports betting and iGaming in the United States may be premised on introducing a style of gaming before our competitors. Failing to do so could materially impair our ability to grow in the online sports betting and iGaming space. We may fail to accurately predict when online sports betting and iGaming 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 sports betting and iGaming will be legalized in additional state jurisdictions, such failure could impair our readiness to introduce online sports betting and iGaming offerings in such jurisdictions, which could have a material impact on our business.

We intend to expand our sports betting operations and there can be no assurance that we will be able to compete effectively, that our expansion initiatives will be successful, or that we will generate sufficient returns on our investment

During the second quarter of 2018, the U.S. Supreme Court overturned the federal ban on sports betting. As a result, several jurisdictions in which we operate legalized sports betting and additional jurisdictions may do so in the future. Our ability to be successful with our proposed sports betting operations is dependent on potential legislation in various jurisdictions that affect the sports betting industry in the United States. We continue to engage with state lawmakers in our other jurisdictions to advocate for the passage of sports betting laws with reasonable tax rates and license fees.

Our sports betting operations will compete in a rapidly evolving and highly competitive market against an increasing number of competitors. In order to compete successfully, we may need to enter into agreements with strategic partners and other third-party vendors and we may not be able to do so on terms that are favorable to us. There can be no assurances when, or if, regulations enabling sports betting and online sportsbooks, casino gaming and poker will be adopted, or the terms of such regulations, in certain of the jurisdictions in which we operate. The success of our proposed sports betting operations is dependent on a number of additional factors that are beyond our control, including the ultimate tax rates and license fees charged by jurisdictions across the United States, our ability to gain market share in a newly developing market, the potential that the market does not develop as we anticipate, the competitive landscape, and our ability to compete with new entrants in the market, changes in consumer demographics and public tastes and preferences, the performance of and licensing of third-party vendors, and the availability and popularity of other forms of entertainment.

Failure to manage risks associated with sports betting may impact profitability

Sports betting operators serve as the house for wagers and must manage the risks of balancing wagers on specific events and markets unlike pari-mutuel wagering, where the operator takes a percentage of each wager. Sports wagering operators must manage risk and protect against the expertise of well-informed and sophisticated customers that may be unprofitable. We use automated risk management processes and an experienced team to manage this risk; however, our inability to manage the inherent risks associated with sports wagering could have a material adverse impact on our sports wagering business.

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

Individuals in jurisdictions in which online gaming is illegal may nonetheless seek to engage our online 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 gaming is illegal engage our online gaming systems, we may be subject to criminal sanctions, regulatory penalties, or the loss of existing or future licenses necessary to offer online gaming or other legal liabilities, any one of which could have a material adverse impact on our businesses. 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 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 gaming in a jurisdiction in which such products are legal.

Risks Related to Our Gaming Business

Our gaming business faces significant competition from brick-and-mortar casinos and other gaming and entertainment alternatives, and we expect competition levels to increase

Our casinos 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. Our casino operations face competition from land-based casinos, dockside casinos, riverboat casinos, casinos located on racetracks, Native American casinos, VLTs, state-sponsored lotteries, iGaming, and other forms of legalized gaming in the U.S. and other jurisdictions. There has been significant competition in our markets as a result of the expansion of facilities by existing market participants, the entrance of new gaming participants into a market, and legislative changes. We do not have 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. In some instances, particularly in the case of Native American casinos, our competitors may pay lower taxes or no taxes. These factors could create challenges for us in competing for customers and accessing cash flow for our casino products that enable us to remain competitive. Legislators in Florida 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.

The gaming industry also faces competition from a variety of sources for discretionary consumer spending, including spectator sports and other entertainment and gaming options. Online and mobile interactive gaming and wagering is growing rapidly and affecting competition in our industry as federal regulations on online and mobile 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 and such increased competition may have an adverse impact on our 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 in which we conduct business, and are subject to extensive state and local regulation. These regulatory authorities have broad discretion and may, for any reason set forth in the applicable legislation, rules and regulations, limit, condition, suspend, fail to renew or revoke a license or registration to conduct gaming operations. 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 currently necessary for the operation of our gaming facilities, we cannot be certain that we will be able to obtain such renewals or approvals in the future, or that we will be able to obtain future approvals that would allow us to expand our gaming operations. The loss of a license in one jurisdiction could trigger the loss of a license or affect or eligibility for a license in another jurisdiction. Also, the gaming and other laws and regulations to which we are subject could change or could be interpreted differently in the future, or new laws and regulations could be enacted. For example, in 2018, the U.S. Department of Justice (“DOJ”) reversed its previously-issued opinion published in 2011, which stated that interstate transmissions of wire communications that do not relate to a “sporting event or contest” fall outside the purview of the Wire Act of 1961 (the “Wire Act”). The DOJ’s updated opinion concluded instead that the Wire Act was not uniformly limited to gaming relating to sporting events or contests and that certain of its provisions apply to non-sports-related wagering activity but a federal judge ordered in 2019 that the Wire Act applies only to wagers on a

sporting event or contest. The DOJ is currently appealing this decision. Any such material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect our business and operating results.

The Bank Secrecy Act, enforced by the Financial Crimes Enforcement Network (“FinCEN”) of the U.S. Treasury Department, requires us to report currency transactions in excess of \$10,000 occurring within a gaming day, including identification of the guest by name and social security number, to the IRS. This regulation also requires us to report certain suspicious activity, including any transaction that exceeds \$5,000 that we know, suspect or have reason to believe involves funds from illegal activity or is designed to evade federal regulations or reporting requirements and to verify sources of funds, in response to which we have implemented Know Your Customer Processes. Periodic audits by the IRS and our internal audit department assess compliance with the Bank Secrecy Act, and substantial penalties can be imposed against us if we fail to comply with this regulation. In recent years the U.S. Treasury Department has increased its focus on Bank Secrecy Act compliance throughout the gaming industry, and public comments by FinCEN suggest that casinos should obtain information on each customer’s sources of income. This could impact our ability to attract and retain casino guests.

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. 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 impact on our business. The high degree of regulation in the gaming industry is a significant obstacle to our growth strategy.

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 revenue is attributable to slot, VLTs, and video poker machines operated by us at our casinos and wagering facilities, and there are a limited number of slot machine manufacturers servicing the gaming industry. 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. A substantial majority of the slot machines sold in the United States in recent years were manufactured by a few select companies, and there has been extensive consolidation activity within the gaming equipment sector. Recently, the prices of new machines have escalated faster than the rate of inflation and slot machine manufacturers have occasionally 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. If the newer slot machines do not result in sufficient incremental revenue to offset the increased investment, it could adversely affect our operations and profitability.

We 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.

We extend credit to a portion of our customers, and we may not be able to collect gaming receivables from our credit customers

We conduct our gaming activities on a credit and cash basis at many of our properties. Any such credit we extend is unsecured. Table games players typically are extended more credit than slot players, and high-stakes players typically are extended more credit than customers who tend to wager lower amounts. High-end gaming is more volatile than other forms of gaming, and variances in win-loss results attributable to high-end gaming may have a significant positive or negative impact on cash flow and earnings in a particular quarter. We extend credit to those customers whose level of play and financial resources warrant, in the opinion of management, an extension of credit. These large receivables could have a significant impact on our results of operations if deemed uncollectible. Gaming debts evidenced by a credit instrument, including what is commonly referred to as a “marker,” and judgments on gaming debts are enforceable under the current laws of the jurisdictions in which we allow play on a credit basis, and judgments on gaming debts in such jurisdictions are enforceable in all U.S. states under the Full Faith and Credit Clause of the U.S. Constitution. However, other jurisdictions may determine that enforcement of gaming debts is against public policy. Although courts of some foreign nations will enforce gaming debts directly and the assets in the U.S. of foreign debtors may be reached to satisfy a judgment, judgments on gaming debts from U.S. courts are not binding on the courts of many foreign nations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own the following real property:

- 100 acres at Churchill Downs and our auxiliary training facility at Derby City Gaming in Louisville, Kentucky
- Arlington International Race Course in Arlington Heights, Illinois
- Oxford Casino in Oxford, Maine
- Riverwalk Casino in Vicksburg, Mississippi
- Calder in Miami Gardens, Florida
- Fair Grounds Race Course, Fair Grounds Slots and VSI in New Orleans, Louisiana
- Ocean Downs Casino and Racetrack in Ocean City, Maryland
- Derby City Gaming in Louisville, Kentucky
- Presque Isle in Erie, Pennsylvania
- Oak Grove Racing and Gaming in Oak Grove, Kentucky
- Turfway Park in Florence, Kentucky

We lease the following real property:

- 158 acres at Churchill Downs Racetrack in Louisville, Kentucky
- Harlow's Casino in Greenville, Mississippi - we lease the land on which the casino and hotel are located
- Lady Luck Nemaocolin - we lease the building as part of the management agreement
- TwinSpires.com and Brisnet in Lexington, Kentucky
- United Tote in Louisville, Kentucky; San Diego, California; and Portland, Oregon
- Corporate and Online Wagering headquarters in Louisville, Kentucky

In 2002, as part of financing improvements to the Churchill Downs facility, we transferred title of the Churchill Downs 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.

ITEM 3. LEGAL PROCEEDINGS

In addition to the matters described below, we are also involved in ordinary routine litigation matters which are incidental to our business.

Kater Class Action Suit

On April 17, 2015, a purported class action styled Cheryl Kater v. Churchill Downs Incorporated (the "Kater litigation") was filed in the United States District Court for the Western District of Washington (the "Washington District Court") alleging, among other claims, that the Company's "Big Fish Casino" operated by the Company's then-wholly owned mobile gaming subsidiary Big Fish Games, Inc. ("Big Fish Games") violated Washington law, including the Washington Consumer Protection Act, by facilitating unlawful gambling through its virtual casino games (namely the slots, blackjack, poker, and roulette games offered through Big Fish Casino), and seeking, among other things, return of monies lost, reasonable attorney's fees, treble damages, and injunctive relief. On November 19, 2015, the Washington District Court dismissed the case with prejudice and, on December 7, 2015, the plaintiff's motion for reconsideration was denied. The plaintiff filed a notice of appeal on January 5, 2016 to the United States Court of Appeals for the Ninth Circuit.

As previously disclosed, on January 9, 2018, the Company sold Big Fish Games to Aristocrat Technologies, Inc., a Nevada corporation ("Purchaser"), an indirect, wholly owned subsidiary of Aristocrat Leisure Limited, an Australian corporation, pursuant to the Stock Purchase Agreement, dated as of November 29, 2017, by and among the Company, Big Fish Games and the Purchaser. Pursuant to the terms of the Stock Purchase Agreement, the Company agreed to indemnify the Purchaser for the losses and expenses associated with the Kater litigation for Big Fish Games, which is referred to in the Stock Purchase Agreement as the "Primary Specified Litigation."

On March 28, 2018, the United States Court of Appeals for the Ninth Circuit reversed and remanded the Washington District Court's dismissal of the complaint against the Company. On June 12, 2018, the United States Court of Appeals for the Ninth Circuit denied the Company's Petition for Rehearing En Banc filed by the Company on May 11, 2018. On July 20, 2018, the Company filed a Motion to Compel Arbitration in the Washington District Court, which was denied on November 2, 2018.

The complaint was amended on March 20, 2019, to add Big Fish Games as a party and to assert claims on behalf of an additional plaintiff, Suzie Kelly. On May 10, 2019, the Company filed an answer as to the claims asserted by plaintiff Kater, and joined Big Fish Games in moving to compel arbitration as to all claims asserted by plaintiff Kelly. Big Fish Games also

moved to compel arbitration against plaintiff Kater. On June 13, 2019, defendants moved to stay discovery pending resolution of the motion to compel arbitration. On August 21, 2019, the Washington District Court partially granted the motion and stayed discovery pending a ruling on the motions to compel arbitration against plaintiffs Kater and Kelly, except as to discovery requests plaintiff Kater served on the Company before amending the complaint. On September 12, 2019, the Washington District Court ordered that the case would be stayed entirely (except for the aforementioned discovery requests), pending the United States Court of Appeals for the Ninth Circuit's ruling on arbitration issues raised in other cases which may be relevant to the arguments raised in the pending motions to compel arbitration.

After the case was stayed, a dispute arose regarding communication between Big Fish Games and its users related to revised terms of use. On November 19, 2019, the District Court granted plaintiffs' motion relating to the communications pursuant to Federal Rule of Civil Procedure 23(d), and on December 19, 2019, the District Court approved a revised communication proposed by defendants. Both parties have appealed issues related to the communication orders to the Ninth Circuit. On February 20, 2020, while the case was stayed, and before completing discovery and before resolution of motions to compel arbitration, plaintiffs filed a motion with the District Court to certify a class for injunctive relief only and for a preliminary injunction prohibiting the sale of virtual casino chips or coins or other virtual tokens or credits from within Washington or to individuals located in Washington. In accordance with the terms of the Stock Purchase Agreement, the Company is working closely with the Purchaser to vigorously defend this matter in both the Washington District Court and in any further appellate proceedings, and the Company believes that there are meritorious legal and factual defenses against the plaintiffs' allegations and requests for relief.

Thimmegowda Class Action Suit

On February 11, 2019, a purported class action styled *Manasa Thimmegowda v. Big Fish Games, Purchaser, Aristocrat Leisure Limited, and the Company*, was filed in the Washington District Court alleging, among other claims, that "Big Fish Casino," which is operated by Big Fish Games, violated Washington law, including the Washington Consumer Protection Act, and seeking, among other things, return of monies lost, reasonable attorney's fees, injunctive relief, and treble and punitive damages. On May 10, 2019, all of the defendants moved to compel arbitration of the claims, and the Company, the Purchaser and Aristocrat Leisure Limited also moved to dismiss the action for lack of personal jurisdiction. On June 13, 2019, defendants moved to stay discovery pending resolution of those motions. On September 12, 2019, the Washington District Court ordered that the case would be stayed entirely, pending the United States Court of Appeals for the Ninth Circuit's ruling on arbitration issues raised in other cases which may be relevant to the arguments raised in the pending motion to compel arbitration.

After the case was stayed, a dispute arose regarding communication between Big Fish Games and its users related to revised terms of use. On November 19, 2019, the District Court granted plaintiffs' motion relating to the communications pursuant to Federal Rule of Civil Procedure 23(d), and on December 19, 2019, the District Court approved a revised communication proposed by defendants. Both parties have appealed issues related to the communication orders to the Ninth Circuit. On February 20, 2020, while the case was stayed, and before completing discovery and before resolution of motions to compel arbitration, plaintiffs filed a motion with the District Court to certify a class for injunctive relief only and for a preliminary injunction prohibiting the sale of virtual casino chips or coins or other virtual tokens or credits from within Washington or to individuals located in Washington. The Company is working to vigorously defend this matter, and believes that there are meritorious legal and factual defenses against plaintiff's allegations and requests for relief.

The Kentucky Horse Racing Commission, et al. v. The Family Trust Foundation of Kentucky, Inc.

In 2010, all Kentucky racetracks and the KHRC (together with the Kentucky racetracks, the "Joint Petitioners") sought a declaration from the Franklin Circuit Court (the "Court") that: (i) the KHRC's historical racing regulations are valid under Kentucky law, and (ii) operating historical racing machines pursuant to a license issued by KHRC would not run afoul of any criminal gaming statutes. The Family Trust Foundation of Kentucky, Inc. (the "Family Foundation") intervened, and the Court subsequently granted summary judgment to the Joint Petitioners holding that the KHRC's historical racing regulations are valid under Kentucky law. Following an appeal to the Kentucky Court of Appeals, in February 2014 the Supreme Court of Kentucky affirmed the Court's decision that the regulations are valid under Kentucky law, but remanded the case to the Court to determine whether operation of historical racing machines that were licensed during the pendency of the litigation constitute pari-mutuel wagering. The Court held a trial during the week of January 8, 2018 to determine whether the games from one of the historical racing machine manufacturers (Encore/Exacta) are pari-mutuel, and the Court set a post-trial briefing schedule for the parties. Although the Court ordered, on August 24, 2017, that this pending litigation only directly involves the historical racing machine games presently in use, and any future historical racing machine games proposed by the Company would not be included in the pending case, the ruling could impact how we design our future games and could affect the underlying economics and technology of historical racing machines. On October 24, 2018, the Court ruled that the historical racing machines in question (Encore/Exacta) are a pari-mutuel system of wagering legally permitted under Kentucky law. In November 2018, the Family Foundation filed a notice of appeal and subsequently filed a motion to transfer the appeal directly

to the Kentucky Supreme Court, which was granted in June 2019. The case is fully briefed and pending before the Kentucky Supreme Court.

Kentucky Downs, LLC, et al. v. Commonwealth of Kentucky, Public Protection Cabinet, Kentucky Horse Racing Commission, et al.

On January 4, 2019, Kentucky Downs, LLC and Kentucky Racing Acquisition, LLC (collectively, "Petitioners") filed a Petition for Review and Appeal of Approval of WKY Development, LLC License Application and Denial of Kentucky Downs, LLC License Application styled Kentucky Downs, LLC, et al. v. Commonwealth of Kentucky, Public Protection Cabinet, Kentucky Horse Racing Commission, et al. in the Franklin Circuit Court, Commonwealth of Kentucky. Petitioners are appealing the vote of the Kentucky Horse Racing Commission, which awarded WKY Development, LLC, our joint venture with Keeneland, a license to conduct live racing and pari-mutuel wagering in Christian County, Kentucky and denied Petitioners' application for a license to conduct live racing and pari-mutuel wagering in Christian County, Kentucky. WKY Development, LLC is a joint venture owned 95% by the Company and 5% by Keeneland. On March 29, 2019, WKY Development, LLC filed an Answer to the Petition for Review and Appeal. A hearing on threshold legal issues is scheduled for February 27, 2020. The Company is vigorously defending this matter and believes that there are meritorious legal and factual defenses against Petitioners' allegations and requests for relief.

Louisiana Environmental Protection Agency Non-Compliance Issue

On December 6, 2013, we received a notice from the EPA regarding alleged CAFO non-compliance at Fair Grounds Race Course. On October 21, 2019, we reached an agreement in principle, subject to final agreement and regulatory and court approval. If approved, the agreement will include a \$2.8 million penalty, which has been accrued and is included in selling, general and administrative expense in our accompanying consolidated statement of comprehensive income for the year ended December 31, 2019, and accrued expense and other current liabilities in our accompanying consolidated balance sheet at December 31, 2019.

Louisiana Horsemen's Purses Class Action Suit

On April 21, 2014, John L. Soileau and other individuals filed a Petition for Declaratory Judgment, Permanent Injunction, and Damages-Class Action styled John L. Soileau, et. al. versus Churchill Downs Louisiana Horseracing, LLC, Churchill Downs Louisiana Video Poker Company, LLC (Suit No. 14-3873) in the Parish of Orleans Civil District Court, State of Louisiana (the "District Court"). The petition defined the "alleged plaintiff class" as quarter horse owners, trainers and jockeys that have won purses at the "Fair Grounds Race Course & Slots" facility in New Orleans, Louisiana since the first effective date of La. R.S. 27:438 and specifically since 2008. The petition alleged that Churchill Downs Louisiana Horseracing, L.L.C. and Churchill Downs Louisiana Video Poker Company, L.L.C. ("Fair Grounds Defendants") have collected certain monies through video draw poker devices that constitute monies earned for purse supplements and all of those supplemental purse monies have been paid to thoroughbred horsemen during Fair Grounds' live thoroughbred horse meets. La. R.S. 27:438 requires a portion of those supplemental purse monies to be paid to quarter-horse horsemen during Fair Grounds' live quarter-horse meets. The petition requested that the District Court declare that Fair Grounds Defendants violated La. R.S. 27:438, issue a permanent and mandatory injunction ordering Fair Grounds Defendants to pay all future supplements due to the plaintiff class pursuant to La.R.S. 27:438, and to pay the plaintiff class such sums as it finds to reasonably represent the value of the sums due to the plaintiff class. On August 14, 2014, the plaintiffs filed an amendment to their petition naming the Horsemen's Benevolent and Protective Association 1993, Inc. ("HBPA") as an additional defendant and alleging that HBPA is also liable to plaintiffs for the disputed purse funds. On October 9, 2014, HBPA and Fair Grounds Defendants filed exceptions to the suit, including an exception of primary jurisdiction seeking referral to the Louisiana Racing Commission. By Judgment dated November 21, 2014, the District Court granted the exception of primary jurisdiction and referred the matter to the Louisiana Racing Commission. On January 26, 2015, the Louisiana Fourth Circuit Court of Appeals denied the plaintiffs' request for supervisory review of the Judgment. On August 24, 2015, the Louisiana Racing Commission ruled that the plaintiffs did not have standing or a right of action to pursue the case. The plaintiffs appealed this decision to the District Court, which affirmed the Louisiana Racing Commission's ruling. The plaintiffs filed an appeal of the District Court's decision with the Louisiana Fourth Circuit Court of Appeals, which reversed the Louisiana Racing Commission's ruling and remanded the matter to the Louisiana Racing Commission for further proceedings on June 13, 2018. The Louisiana Fourth Circuit Court of Appeals denied the Fair Grounds Defendants' Motion for Rehearing on July 12, 2018 and the Louisiana Supreme Court denied the Fair Grounds Defendants' Writ of Certiorari seeking review of that decision on November 14, 2018. The parties had previously attempted to mediate the matter in October 2018, but were unsuccessful. Thereafter, the parties resumed informal settlement discussions, and, as a result, the Company established an accrual for an immaterial amount in the third quarter of 2019. The parties submitted a settlement agreement to the District Court on February 14, 2020, following the Louisiana Racing Commission's approval to transfer the matter to the District Court for approval and administration of the settlement agreement on February 12, 2020. At a hearing on February 18, 2020, the District Court granted preliminary approval of the settlement agreement and set certain deadlines relating to actions to be taken by class members. A fairness hearing with the District Court relating to the terms of the settlement agreement is set for April 27, 2020. The settlement agreement requires, among other items, the Fair Grounds Defendants to (i) pay a certain out-of-pocket amount that is within the amount for which we established an accrual in the third quarter of 2019, and (ii) support legislation that would allocate a specified amount of video poker purse funds to quarter horse

purses for races at Fair Grounds with maximum annual payout caps that are not deemed material. The settlement includes a release of claims against the Fair Grounds Defendants in connection with the proceeding, although individual plaintiffs may opt-out. If there are opt-out claims in excess of \$50,000, the settlement will be voided, unless the parties agree to stipulate otherwise. The settlement agreement is subject to certain conditions, including court approval and the passage of certain legislation.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market for Common Stock

The Company's common stock is traded on the Nasdaq Global Select Market under the symbol CHDN. As of February 10, 2020, there were approximately 2,520 shareholders of record. All share and per share amounts presented were retroactively adjusted to reflect the Stock Split for shareholders of record on January 11, 2019 and with an effective date of January 25, 2019. The Company's stock began trading at the split adjusted price on January 28, 2019.

Dividends

Since joining The Nasdaq Global Select Market in 1993, we have declared and paid cash dividends on an annual basis at the discretion of our Board of Directors. The payment and amount of future dividends will be determined by the Board of Directors and will depend upon, among other things, our operating results, financial condition, cash requirements and general business conditions at the time such payment is considered. We declared a dividend of \$0.581 in December 2019, which was paid in January 2020, and we declared a dividend of \$0.543 in December 2018, which was paid in January 2019.

Issuer Purchases of Common Stock

The following table provides information with respect to shares of common stock that we repurchased during the quarter ended December 31, 2019:

Period	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 (in millions)⁽¹⁾
10/1/19-10/31/2019	80,303	\$ 130.97	80,303	\$ 189.5
11/1/19-11/30/2019	64,947	\$ 127.28	64,820	181.2
12/1/19-12/31/2019	74,787	\$ 134.92	46,637	175.0
Total	220,037	\$ 131.22	191,760	

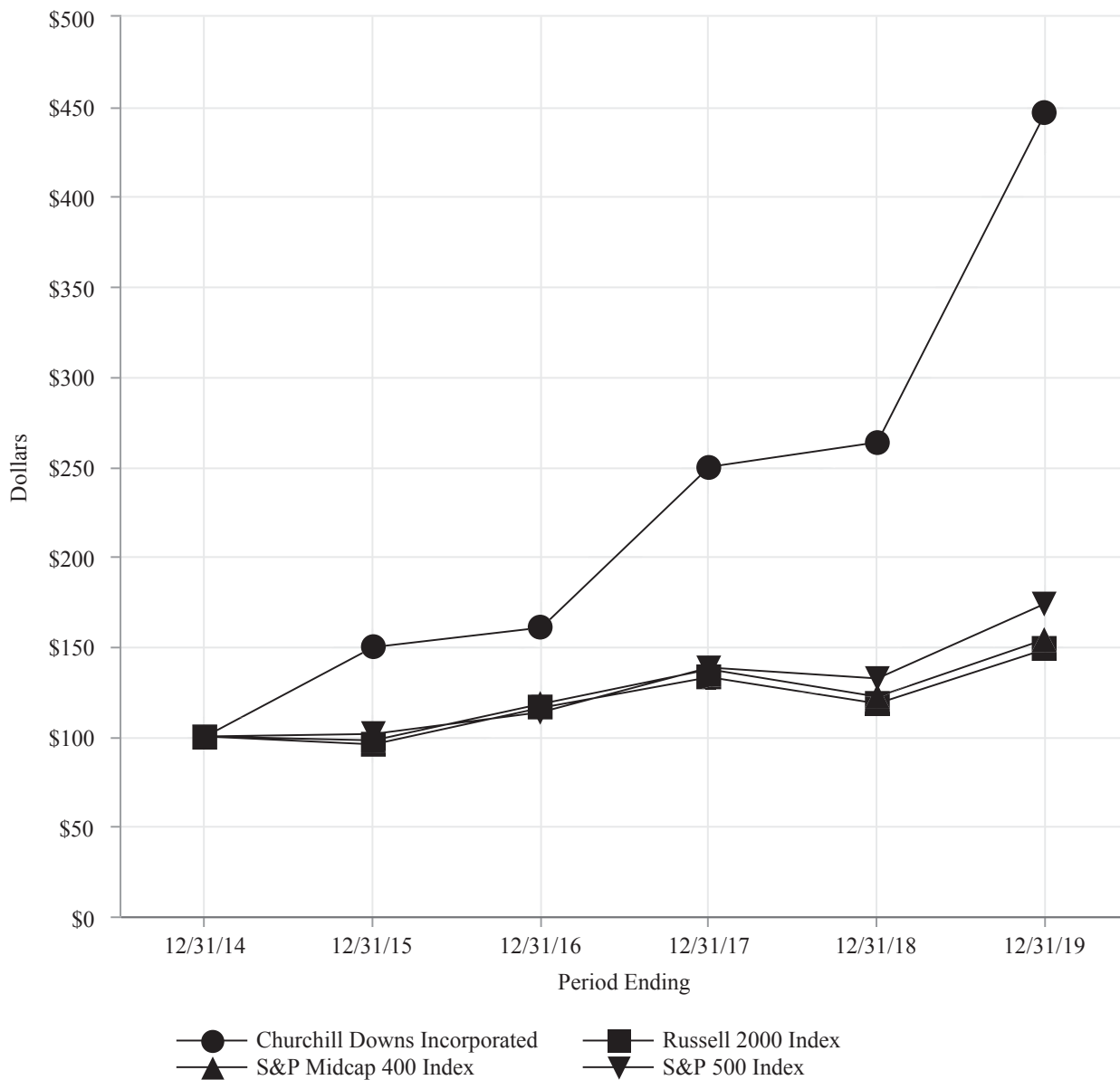
- (1) On October 30, 2018, the Board of Directors of the Company approved a new common stock repurchase program of up to \$300.0 million inclusive of any remaining authorization under the prior program. The prior \$250.0 million program was authorized in April 2017 and had unused authorization of \$78.3 million. Repurchases may be made at management's discretion from time to time on the open market (either with or without a 10b5-1 plan) or through privately negotiated transactions. The repurchase program has no time limit and may be suspended or discontinued at any time.

Shareholder Return Performance Graph

The following performance graph and related information shall not be deemed "soliciting material" nor to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent we specifically incorporate it by reference into such filing.

The following graph depicts the cumulative total shareholder return, assuming reinvestment of dividends, for the periods indicated for our Common Stock compared to the Russell 2000 Index, S&P Midcap 400 Index, and the S&P 500 Index. We consider the Russell 2000 Index to be our most comparable peer group index. We added the S&P Midcap 400 Index as a comparison beginning in our Annual Report on Form 10-K for the year ended December 31, 2018. The S&P Midcap 400 Index

includes the Company's results and also reflects companies which have a more comparable market capitalization than the S&P 500 Index.



	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>
Churchill Downs Incorporated	\$ 100.00	\$ 149.64	\$ 160.49	\$ 249.83	\$ 263.49	\$ 446.58
Russell 2000 Index	\$ 100.00	\$ 95.59	\$ 115.95	\$ 132.94	\$ 118.30	\$ 148.49
S&P Midcap 400 Index	\$ 100.00	\$ 97.82	\$ 118.11	\$ 137.30	\$ 122.08	\$ 154.07
S&P 500 Index	\$ 100.00	\$ 101.38	\$ 113.51	\$ 138.29	\$ 132.23	\$ 173.86

ITEM 6. SELECTED FINANCIAL DATA

<i>(In millions, except per common share data)</i>	Years Ended December 31,				
	2019^{(a)(e)}	2018^{(b)(e)(f)}	2017^{(c)(e)(f)}	2016^{(d)(e)(f)}	2015^{(e)(f)}
Operations:					
Net revenue	\$ 1,329.7	\$ 1,009.0	\$ 882.6	\$ 822.4	\$ 798.6
Operating income	215.7	188.8	145.7	172.5	126.3
Income from continuing operations, net of tax	139.6	182.6	122.4	96.7	70.8
(Loss) income from discontinued operations, net of tax	(2.4)	170.2	18.1	11.4	(5.6)
Net income attributable to CDI	137.5	352.8	140.5	108.1	65.2
Net income from continuing operations per common share:					
Basic	\$ 3.49	\$ 4.42	\$ 2.59	\$ 1.94	\$ 1.36
Diluted	\$ 3.44	\$ 4.39	\$ 2.55	\$ 1.92	\$ 1.34
Balance sheet data at period end:					
Total assets	\$ 2,551.0	\$ 1,725.2	\$ 2,359.4	\$ 2,254.4	\$ 2,277.4
Total debt, net	1,473.9	884.3	1,129.2	921.7	781.8
Total liabilities	2,040.0	1,251.9	1,719.1	1,569.4	1,660.2
Shareholders' equity	508.3	473.3	640.3	685.0	617.2
Shareholders' equity per common share	\$ 12.80	\$ 11.72	\$ 13.85	\$ 13.85	\$ 12.39
Other data:					
Cash flows from operating activities	\$ 289.6	\$ 197.8	\$ 215.1	\$ 231.4	\$ 264.5
Capital maintenance expenditures	48.3	29.6	33.3	30.9	31.1
Capital project expenditures	82.9	119.8	83.6	23.8	12.4
Dividends declared per common share	\$ 0.581	\$ 0.543	\$ 0.507	\$ 0.440	\$ 0.383
Cash dividends paid	\$ 22.2	\$ 23.7	\$ 21.5	\$ 19.1	\$ 17.4
Common stock repurchases	\$ 93.0	\$ 532.0	\$ 179.5	\$ 27.6	\$ 138.1

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

- (a) 2019 includes:
- the results from the dates of acquisition through December 31, 2019 for Presque Isle, Lady Luck Nemacolin, Turfway Park, and the equity investment in Rivers Des Plaines; and
 - \$10.0 million accelerated amortization of the purchase and sale rights related to the Turfway Park Acquisition.
- (b) 2018 includes the \$54.9 million pre-tax gain on the Ocean Downs/Saratoga Transaction and the consolidated results of Ocean Downs after August 31, 2018.
- (c) 2017 includes a \$21.7 million impairment of tangible and intangible assets and a \$20.7 million loss on extinguishment of debt. 2017 also includes a \$57.7 million income tax benefit resulting primarily from the re-measurement of our net deferred tax liabilities as a result of the Tax Cuts and Jobs Acts ("Tax Act").
- (d) 2016 includes a \$23.7 million gain on Calder land sale.
- (e) Big Fish Games is accounted for as discontinued operations from the date of acquisition on December 16, 2014 through December 31, 2019 as a result of the Big Fish Transaction.
- (f) All per share amounts presented were retroactively adjusted to reflect the Stock Split for shareholders of record on January 11, 2019 and with an effective date of January 25, 2019. CHDN stock began trading at the split adjusted price on January 28, 2019.

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

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes included in Part II, Item 8. Financial Statements and Supplementary Data. The following discussion provides an analysis of our results of operations and reasons for material changes therein for 2019 as compared to 2018. Discussion regarding our financial condition and results of operations for 2018 as compared to 2017 is included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 27, 2019.

Our Business

We are an industry-leading racing, online wagering and gaming entertainment company anchored by our iconic flagship event - *The Kentucky Derby*. We own and operate Derby City Gaming, a historical racing machine ("HRM") facility in Louisville, Kentucky. We also own and operate the largest online horse racing wagering platform in the U.S., TwinSpires.com, and we operate sports betting and iGaming through our BetAmerica platform in multiple states. We are also a leader in brick-and-mortar casino gaming with approximately 11,000 slot machines and video lottery terminals ("VLTs") and 200 table games in eight states. We were organized as a Kentucky corporation in 1928, and our principal executive offices are located in Louisville, Kentucky.

Segments

During the first quarter of 2019, we realigned our operating segments to reflect the internal management reporting used by our chief operating decision maker to evaluate results of operations and to assess performance and allocate resources. For additional information, refer to Note 20 to the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K. For financial reporting purposes, we aggregate our operating segments into three reportable segments as follows:

- **Churchill Downs**

The Churchill Downs segment includes live and historical pari-mutuel racing related revenue and expenses at Churchill Downs Racetrack and Derby City Gaming.

Churchill Downs Racetrack is the home of *The Kentucky Derby* and conducts live racing during the year. Derby City Gaming is an HRM facility that operates under the Churchill Downs pari-mutuel racing license at its auxiliary training facility in Louisville, Kentucky.

Churchill Downs Racetrack and Derby City Gaming earn commissions primarily from pari-mutuel wagering on live races at Churchill Downs and on historical races at Derby City Gaming; simulcast fees earned from other wagering sites; admissions, personal seat licenses, sponsorships, television rights, and other miscellaneous services (collectively "racing event-related services"), as well as food and beverage services.

- **Online Wagering**

The Online Wagering segment includes the revenue and expenses for our TwinSpires business ("TwinSpires") and our online sports betting and iGaming business.

TwinSpires operates our online horse racing wagering business on TwinSpires.com, BetAmerica.com, and other white-label platforms; facilitates high dollar wagering by international customers ("Velocity"); and provides the Bloodstock Research Information Services ("BRIS") platform for horse racing statistical data.

Our sports betting and iGaming business operates the BetAmerica sports betting and casino iGaming platform in multiple states, including Mississippi, New Jersey, Indiana, Pennsylvania, and Arkansas. The mobile and online BetAmerica sports betting and casino iGaming results are included in the Online Wagering segment and the retail operations are included in the Gaming segment.

- **Gaming**

The Gaming segment includes revenue and expenses for the casino properties and associated racetrack or jai alai facilities which support the casino license. The Gaming segment has approximately 11,000 slot machines and VLTs and 200 table games located in eight states.

The Gaming segment revenue and Adjusted EBITDA includes the following properties:

- Calder Casino and Racing ("Calder")
- Fair Grounds Slots, Fair Grounds Race Course, and Video Services, LLC ("VSI") (collectively, "Fair Grounds and VSI")
- Harlow's Casino Resort and Spa ("Harlow's")

- Lady Luck Casino Nemacolin ("Lady Luck Nemacolin") management agreement
- Ocean Downs Casino and Racetrack ("Ocean Downs")
- Oxford Casino and Hotel ("Oxford")
- Presque Isle Downs and Casino ("Presque Isle")
- Riverwalk Casino Hotel ("Riverwalk")

The Gaming segment Adjusted EBITDA also includes the Adjusted EBITDA related to the Company's equity investments in the following:

- 61.3% equity investment in Midwest Gaming Holdings, LLC ("Midwest Gaming"), the parent company of Rivers Casino Des Plaines in Des Plaines, Illinois ("Rivers Des Plaines")
- 50% equity investment in Miami Valley Gaming and Racing ("MVG")

The Gaming segment generates revenue and expenses from slot machines, table games, VLTs, video poker, retail sports betting, ancillary food and beverage services, hotel services, commission on pari-mutuel wagering, racing event-related services, and / or other miscellaneous operations.

We have aggregated the following businesses as well as certain corporate operations, and other immaterial joint ventures in "All Other" to reconcile to consolidated results:

- Arlington International Race Course ("Arlington")
- United Tote
- Oak Grove Racing and Gaming ("Oak Grove")
- Turfway Park
- Corporate

We conduct our business through these reportable segments and report net revenue and operating expense associated with these reportable segments in the accompanying consolidated statements of comprehensive income. The prior year results were reclassified to conform to this presentation.

Effective January 1, 2019, the Company does not allocate corporate and other related expenses to our segments in the accompanying consolidated statements of comprehensive income. The prior year results in the accompanying consolidated statements of comprehensive income were reclassified to conform to this presentation.

Key 2019 Transactions

Acquisitions of Presque Isle and Lady Luck Nemacolin

On January 11, 2019, we completed the acquisition of Presque Isle located in Erie, Pennsylvania from Eldorado Resorts, Inc. ("ERI") for cash consideration of \$178.9 million (the "Presque Isle Transaction") and \$1.6 million of working capital and other purchase price adjustments.

On March 8, 2019, the Company assumed management and acquired certain assets related to the management of Lady Luck Nemacolin in Farmington, Pennsylvania, from ERI for cash consideration of \$100,000 (the "Lady Luck Nemacolin Transaction").

For additional information on the Presque Isle Transaction and the Lady Luck Nemacolin Transactions, refer to Note 3 to the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Acquisition of Certain Ownership Interests of Rivers Des Plaines

On March 5, 2019, the Company completed the acquisition of certain ownership interests of Midwest Gaming, the parent company of Rivers Des Plaines, to acquire approximately 42% of Midwest Gaming from affiliates and co-investors of Clairvest Group Inc. ("Clairvest") and members of High Plains Gaming, LLC ("High Plains"), an affiliate of Rush Street Gaming, LLC, and Casino Investors, LLC ("Casino Investors") for cash consideration of approximately \$406.6 million and \$3.5 million of certain transaction costs and working capital adjustments (the "Sale Transaction"). Following the closing of the Sale Transaction, the parties completed a recapitalization transaction on March 6, 2019 (the "Recapitalization"), pursuant to which Midwest Gaming used approximately \$300.0 million in proceeds from amended and extended credit facilities to redeem, on a pro rata basis, additional Midwest Gaming units held by High Plains and Casino Investors. As a result of the Recapitalization, the Company's ownership of Midwest Gaming increased to 61.3%. High Plains retained ownership of 36.0% of Midwest Gaming and Casino Investors retained ownership of 2.7% of Midwest Gaming.

We also recognized a \$103.2 million deferred tax liability and a corresponding increase in our investment in unconsolidated affiliates related to an entity we acquired in conjunction with our acquisition of the Clairvest ownership stake in Midwest Gaming.

For additional information on the Sale Transaction and Recapitalization, refer to Item 8. Financial Statements and Supplementary Data.

Turfway Park Acquisition

The Company completed the acquisition of Turfway Park from Jack Entertainment LLC ("JACK") and Hard Rock International ("Hard Rock") on October 9, 2019 for total consideration of \$46 million in cash ("Turfway Park Acquisition"). Turfway Park is located on 197 acres in Florence, Kentucky. The Company has announced plans and has begun to invest up to \$150.0 million (including the Turfway Park Acquisition total consideration of \$46.0 million) in a state-of-the-art live and historical thoroughbred racing facility at Turfway Park.

Of the \$46.0 million total consideration, \$36.0 million, less \$0.9 million of working capital and purchase price adjustments, was accounted for as a business combination. The remaining \$10.0 million was paid to Hard Rock for the assignment of the purchase and sale agreement rights and was accounted for separately from the business combination as an intangible asset and was amortized through expense in the fourth quarter of 2019. Refer to Item 8. Financial Statements and Supplementary Data, for additional information on the Turfway Park Acquisition.

Stock Split

On January 25, 2019, the Company distributed the additional shares resulting from a previously announced three-for-one split (the "Stock Split") of the Company's common stock for shareholders of record as of January 11, 2019. Our common stock began trading at the split-adjusted price on January 28, 2019. All share and per-share amounts in the Company's consolidated financial statements and related notes in Item 8. Financial Statements and Supplementary Data have been retroactively adjusted for prior periods to reflect the effects of the Stock Split.

Key Indicators to Evaluate Business Results and Financial Condition

Our management monitors a variety of key indicators to evaluate our business results and financial condition. These indicators include changes in net revenue, operating expense, operating income, earnings per share, outstanding debt balance, operating cash flow and capital spend.

Our consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). We also use non-GAAP measures, including EBITDA (earnings before interest, taxes, depreciation and amortization) and Adjusted EBITDA. We believe that the use of Adjusted EBITDA as a key performance measure of results of operations enables management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. Our chief operating decision maker utilizes Adjusted EBITDA to evaluate segment performance, develop strategy and allocate resources. Adjusted EBITDA is a supplemental measure of our performance that is not required by, or presented in accordance with, GAAP. Adjusted EBITDA should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with GAAP) as a measure of our operating results.

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, adjusted for the following:

Adjusted EBITDA includes our portion of the EBITDA from our equity investments.

Adjusted EBITDA excludes:

- Transaction expense, net which includes:
 - Acquisition and disposition related charges, including fair value adjustments related to earnouts and deferred payments;
 - Calder racing exit costs; and
 - Other transaction expense, including legal, accounting and other deal-related expense;
- Stock-based compensation expense;
- Midwest Gaming's impact on our investments in unconsolidated affiliates from:
 - The impact of changes in fair value of interest rate swaps; and
 - Recapitalization and transaction costs;
- Asset impairments;
- Gain on Ocean Downs/Saratoga Transaction;
- Loss on extinguishment of debt;
- Legal reserves;
- Pre-opening expense; and

- Other charges, recoveries and expenses

For segment reporting, Adjusted EBITDA includes intercompany revenue and expense totals that are eliminated in the consolidated statements of comprehensive income. See the Reconciliation of Comprehensive Income to Adjusted EBITDA included in this section for additional information.

Business Highlights

In 2019, we delivered another year of strong performance while beginning the execution of a number of organic investments that we believe will provide long-term sustainable value creation.

- We delivered strong growth in net revenue and net income, operating income, and Adjusted EBITDA in 2019.
 - Net revenue was \$1.3 billion, up \$320.7 million, or 31.8%;
 - Operating income was \$215.7 million, up \$26.9 million, or 14.2%; and
 - Adjusted EBITDA was \$451.4 million, up \$122.6 million, or 37.3%.
- Churchill Downs Segment:
 - Derby Week generated an incremental \$5.4 million of Adjusted EBITDA in 2019 and set all-time wagering records from all sources handle on the Kentucky Oaks Day, the Kentucky Derby Day, and the Kentucky Derby Race. In October 2019, we announced plans to invest \$300.0 million to build a hotel and HRM facility and permanent stadium seating.
 - Derby City Gaming outperformed expectations for 2019, contributing significant increases in both revenue and Adjusted EBITDA.
- Online Wagering Segment:
 - TwinSpires handle grew to \$1.5 billion, up 4.8% compared to 2018 as we outpaced the industry growth by 6.8 percentage points.
 - We launched our online sports betting and iGaming operations in New Jersey in the first quarter of 2019 and in Pennsylvania and Indiana in the fourth quarter of 2019.
- Gaming Segment:
 - Our wholly-owned Gaming properties delivered strong organic growth from successful marketing and promotional activities, and we were able to successfully integrate our Presque Isle and Lady Luck Nemacolin transactions during 2019.
 - In March 2019, we closed on our 61.3% equity investment in Rivers Des Plaines which contributed strong Adjusted EBITDA results for the year. Rivers Des Plaines is well positioned to grow as a result of an expanded gaming bill in Illinois. Rivers Des Plaines has opened a new sports bar, received approval to become the first land-based casino in Illinois, is in process of building a parking garage, and is adding 800 additional positions. MVG announced a \$100 million investment in a hotel that will open by the third quarter of 2021. Both of these investments are positioned well to provide strong growth in the coming years.

As we look to 2020 and beyond, we remain committed to delivering strong financial results and long-term sustainable growth for our shareholders. We have strong cash flow and a solid balance sheet that supports organic growth as well as other strategic acquisitions and organic investment opportunities that we believe will create long-term value for our shareholders.

Our Operations

We manage our operations through three reportable segments: Churchill Downs, Online Wagering, and Gaming.

Refer to Part I, Item 1. Business, of this Annual Report on Form 10-K for more information on our segments and a description of our competition and government regulations and potential legislative changes that affect our business.

Consolidated Financial Results

The following table reflects our net revenue, operating income, net income, Adjusted EBITDA, and certain other financial information:

<i>(in millions)</i>	Years Ended December 31,		Change
	2019	2018	
Net revenue	\$ 1,329.7	\$ 1,009.0	\$ 320.7
Operating income	215.7	188.8	26.9
Operating income margin	16.2 %	18.7 %	
Net income from continuing operations	139.6	182.6	(43.0)
Net income attributable to Churchill Downs Incorporated	137.5	352.8	(215.3)
Adjusted EBITDA	451.4	328.8	122.6

Year Ended December 31, 2019, Compared to the Year Ended December 31, 2018

- Net revenue increased \$320.7 million driven by a \$242.9 million increase from the Gaming segment primarily due to the Presque Isle, Lady Luck Nemaquin and Ocean Downs/Saratoga Transactions, as well as growth at our other gaming properties, a \$78.4 million increase from Churchill Downs primarily due to Derby City Gaming's continued growth and a full year of results compared to the prior year with the September 2018 opening, and a \$0.3 million increase in our Online Wagering segment. Partially offsetting these increases was a \$0.9 million decrease in All Other, primarily related to a decrease in handle at Arlington.
- Operating income increased \$26.9 million due to a \$45.8 million increase from Gaming primarily driven by the increase in net revenue; a \$30.9 million increase from Churchill Downs primarily due to Derby City Gaming's continued growth and a full year of results compared to the prior year with the September 2018 opening; and a \$5.0 million decrease in transaction expense, net. Partially offsetting these increases were a \$31.4 million increase in selling, general and administrative expenses driven by the Presque Isle, Lady Luck Nemaquin and Ocean Downs/Saratoga Transactions, and a full year of results for Derby City Gaming compared to the prior year with the September 2018 opening, as well as an increase in stock-based compensation; a \$14.0 million decrease in All Other primarily due to an increase in salaries and related benefits at the corporate level and a decrease in handle and lower attendance at Arlington; and a \$9.4 million decrease primarily from the Online Wagering segment for costs associated with the continued build-out of our online sports betting and iGaming operations and increased marketing spend.
- Net income from continuing operations decreased \$43.0 million. The following items impacted comparability of the Company's year ended December 31, 2019 net income from continuing operations: a \$42.3 million after-tax gain on the Ocean Downs/Saratoga Transaction in 2018 which did not recur in 2019; a \$9.3 million after-tax impact of our equity portion of Midwest Gaming's non-cash change in fair value related to interest rate swaps in 2019; an \$8.3 million non-cash tax impact related to the re-measurement of our net deferred tax liabilities based on an increase in revenue related to states with higher tax rates compared to the prior year period; a \$7.5 million after-tax impact for the accelerated amortization of the purchase and sale agreement rights related to the Turfway Park Acquisition in 2019; a \$3.5 million after-tax impact of our equity portion of Midwest Gaming's recapitalization and transaction costs in 2019; and a \$3.4 million after-tax increase in expenses due to legal reserves in 2019 compared to 2018. Partially offsetting these increases was a \$3.0 million after-tax decrease in expenses related to lower transaction, pre-opening and other expenses. Excluding these items, net income from continuing operations increased \$28.3 million primarily due to a \$55.8 million after-tax increase driven by the results of our operations and equity income from our unconsolidated affiliates, partially offset by a \$22.1 million after-tax increase in interest expense associated with higher outstanding debt balances and a \$5.4 million tax expense related to a higher effective tax rate compared to the prior year period due to an increase in income attributable to states with higher tax rates.
- Our net income attributable to Churchill Downs Incorporated decreased \$215.3 million due to a \$43.0 million decrease in net income from continuing operations discussed above and a \$172.6 million decrease in net income from discontinued operations driven by the after-tax gain on the sale of Big Fish Games in January 2018, partially offset by a \$0.3 million decrease from our net loss attributable to our noncontrolling interest.
- Our Adjusted EBITDA increased \$122.6 million driven by a \$106.9 million increase from the Gaming segment primarily due to the Presque Isle, Midwest Gaming, and Ocean Downs/Saratoga Transactions, as well as strong performances of our wholly-owned Gaming properties and our equity investment in MVG, and a \$35.3 million increase from the Churchill Downs segment primarily due to Derby City Gaming's continued growth and a full year of results compared to the prior year with the September 2018 opening. Partially offsetting these increases were a \$12.7

million decrease from the Online Wagering segment for costs associated with the continued build-out of our online sports betting and iGaming operations and increased marketing spend, and a \$6.9 million decrease from All Other mainly due to increased salaries and related benefits at the corporate level and a decrease in handle at Arlington.

Financial Results by Segment

Net Revenue by Segment

The following table presents net revenue for our segments, including intercompany revenue:

<i>(in millions)</i>	Years Ended December 31,		Change
	2019	2018	
Churchill Downs:			
Churchill Downs Racetrack	\$ 202.8	\$ 193.7	\$ 9.1
Derby City Gaming	86.6	14.8	71.8
Total Churchill Downs	289.4	208.5	80.9
Online Wagering:			
Twin Spires	291.0	291.5	(0.5)
Online Sports Betting and iGaming	0.6	—	0.6
Total Online Wagering	291.6	291.5	0.1
Gaming:			
Presque Isle	139.0	—	139.0
Fair Grounds Slots and VSI	124.8	119.3	5.5
Oxford	101.7	102.0	(0.3)
Calder	99.9	98.7	1.2
Ocean Downs	85.9	25.9	60.0
Riverwalk	58.9	54.5	4.4
Harlow's	55.3	50.2	5.1
Lady Luck Nemaocolin	29.3	—	29.3
Saratoga	—	0.6	(0.6)
Total Gaming	694.8	451.2	243.6
All Other	84.2	84.7	(0.5)
Eliminations	(30.3)	(26.9)	(3.4)
Net Revenue	\$ 1,329.7	\$ 1,009.0	\$ 320.7

Year Ended December 31, 2019, Compared to the Year Ended December 31, 2018

- Churchill Downs revenue increased \$80.9 million primarily due to a \$71.8 million increase from a full year of results at Derby City Gaming due to the September 2018 opening and a \$9.1 million increase at Churchill Downs Racetrack primarily due to a successful Kentucky Derby and Oaks week driven by increased ticket sales for reserved seating, sponsorship growth, and record handle.
- Online Wagering revenue increased \$0.1 million from the prior year. TwinSpires revenue decreased \$0.5 million from the prior year primarily due to the exit of certain existing high volume with low margin customers in the Velocity group within TwinSpires net revenue. TwinSpires handle, which does not include handle from customers in the Velocity group, grew 4.8% during 2019 compared to the prior year and compared favorably to a 2.0% decrease in U.S. thoroughbred industry handle. Active players increased 16.8% for the year compared to the prior year while net revenue per active player declined 14.2%. Our online sports betting and iGaming net revenues increased \$0.6 million due to the launch in New Jersey in the first quarter of 2019 and Pennsylvania and Indiana in the fourth quarter of 2019.
- Gaming revenue increased \$243.6 million driven by a \$139.0 million increase due to the Presque Isle Transaction, a \$60.0 million increase due a full year of results in 2019 from the Ocean Downs/Saratoga Transaction, a \$29.3 million increase due to the Lady Luck Nemaocolin Transaction, a \$9.5 million increase from our Mississippi properties primarily due to higher attendance driven by our retail BetAmerica Sportsbooks which opened in August 2018, a \$5.5 million increase at Fair Grounds and VSI primarily due to two additional off-track betting and video poker facilities and successful marketing and promotional activities, and a \$1.2 million increase from Calder, primarily due to

successful marketing and promotional activities. Partially offsetting these increases were \$0.9 million decrease from other sources.

- All Other revenue decreased \$0.5 million primarily due to a decrease in handle at Arlington.

Consolidated Operating Expense

The following table is a summary of our consolidated operating expense:

<i>(in millions)</i>	Years Ended December 31,		Change
	2019	2018	
Taxes and purses	\$ 369.7	\$ 226.7	\$ 143.0
Salaries and benefits	171.2	127.5	43.7
Content expense	139.6	142.1	(2.5)
Selling, general and administrative expense	122.0	90.6	31.4
Depreciation and amortization	96.4	63.6	32.8
Marketing and advertising expense	41.8	28.8	13.0
Transaction expense, net	5.3	10.3	(5.0)
Other operating expense	168.0	130.6	37.4
Total expense	<u>\$ 1,114.0</u>	<u>\$ 820.2</u>	<u>\$ 293.8</u>
Percent of revenue	84 %	81 %	

Year Ended December 31, 2019, Compared to the Year Ended December 31, 2018

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses increased \$143.0 million driven by the Presque Isle, Ocean Downs/Saratoga, and Lady Luck Nemacolin Transactions, a full year of operations at Derby City Gaming due to the September 2018 opening, an increase in purse amounts at Churchill Downs Racetrack, the Turfway Park Acquisition, and the first racing meet at Oak Grove during the fourth quarter of 2019.
- Salaries and benefits expense increased \$43.7 million driven by the Presque Isle, Ocean Downs/Saratoga, and Lady Luck Nemacolin Transactions, a full year operations at Derby City Gaming due to the September 2018 opening, an increase at Churchill Downs Racetrack consistent with the growth in revenue and Adjusted EBITDA, and an increase with our online sports betting and iGaming business due to the launches in New Jersey, Pennsylvania, and Indiana during 2019.
- Content expense decreased \$2.5 million primarily due to a decrease in certain host fees.
- Selling, general and administrative expense increased \$31.4 million primarily from an increase in salaries and related benefits, stock-based compensation, legal reserves, and legal and professional fees.
- Depreciation and amortization expense increased \$32.8 million primarily driven by the amortization of the assignment of the purchase and sale agreement rights associated with the Turfway Park Acquisition, the Presque Isle Transaction, a full year operations at Derby City Gaming due to the September 2018 opening, the Ocean Downs/Saratoga Transaction, and capital expenditures placed into service for Churchill Downs Racetrack.
- Marketing and advertising expense increased \$13.0 million primarily due to our online sports betting and iGaming operations, the Presque Isle, Lady Luck Nemacolin, and Ocean Downs/Saratoga Transactions, and a full year of operations at Derby City Gaming due to the September 2018 opening.
- Transaction expense, net decreased \$5.0 million primarily due to increased expenses associated with announced transactions in 2018 that did not recur in 2019.
- Other operating expense includes maintenance, utilities, food and beverage costs, property taxes and insurance and other operating expenses. Other operating expense increased \$37.4 million primarily driven by the Presque Isle, Lady Luck Nemacolin, and Ocean Downs/Saratoga Transactions, a full year of operations at Derby City Gaming due to the September 2018 opening, our online sports betting and iGaming operations, and the Turfway Park Acquisition.

Adjusted EBITDA

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 our performance that is not required by or presented in accordance with GAAP. Adjusted EBITDA should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with GAAP) as a measure of our operating results.

	Year Ended December 31,		
	2019	2018	Change
<i>(in millions)</i>			
Churchill Downs	\$ 137.7	\$ 102.4	\$ 35.3
Online Wagering	66.3	79.0	(12.7)
Gaming	280.9	174.0	106.9
Total segment Adjusted EBITDA	484.9	355.4	129.5
All Other	(33.5)	(26.6)	(6.9)
Total Adjusted EBITDA	\$ 451.4	\$ 328.8	\$ 122.6

Year Ended December 31, 2019, Compared to the Year Ended December 31, 2018

- Churchill Downs Adjusted EBITDA increased \$35.3 million due to a \$32.9 million increase from Derby City Gaming's continued growth and a full year of results compared to the prior year with the September 2018 opening and a \$2.4 million increase at Churchill Downs Racetrack, primarily due to a successful Kentucky Derby and Oaks week driven by increased ticket sales for reserved seating, sponsorship growth, and record handle.
- Online Wagering Adjusted EBITDA decreased \$12.7 million driven by a \$12.1 million decrease due to costs associated with the continued build-out of our online sports betting and iGaming operations and increased marketing spend. TwinSpires Adjusted EBITDA decreased \$0.6 million primarily due the decrease in net revenue.
- Gaming Adjusted EBITDA increased \$106.9 million driven by a \$94.3 million increase from our equity investment in Midwest Gaming and the Presque Isle and Lady Luck Nemaquin Transactions; a \$4.9 million increase from our Mississippi properties primarily due to higher attendance driven by the opening of our retail BetAmerica Sportsbooks; a \$3.7 million increase from our equity investment at MVG; a \$2.7 million increase from Ocean Downs due to the acquisition of the remaining 37.5% of Ocean Downs partially offset by the liquidation of our equity investments in Saratoga as a result of the Ocean Downs/Saratoga Transaction; and a \$2.7 million increase from Fair Grounds and VSI primarily due to two additional off-track betting facilities ("OTBs") and video poker facilities and successful marketing and promotional activities. Partially offsetting these increases were a \$1.4 million decrease at Calder associated with the May 2019 opening of the jai alai operation and favorable insurance reserve adjustments in the prior year that did not recur in 2019.
- All Other Adjusted EBITDA decreased \$6.9 million primarily from a \$4.2 million increase in salaries and related benefits at the corporate level, a \$2.0 million decrease at Arlington due to decreased handle and lower attendance primarily related to inclement weather, a \$1.6 million decrease from our initial operations due to the first live racing meet at Oak Grove in the fourth quarter of 2019, and a \$0.5 million decrease as a result of the Turfway Park Acquisition. Partially offsetting these decreases was a \$1.4 million increase from United Tote primarily due to increased equipment sales and higher totalisator fees from new customers.

Reconciliation of Comprehensive Income to Adjusted EBITDA

<i>(in millions)</i>	Years Ended December 31,		
	2019	2018	Change
Comprehensive income attributable to CDI	\$ 137.5	\$ 353.2	\$ (215.7)
Foreign currency translation, net of tax	—	(0.6)	0.6
Change in pension benefits, net of tax	—	0.2	(0.2)
Net income attributable to CDI	137.5	352.8	(215.3)
Net loss attributable to noncontrolling interest	0.3	—	0.3
Net income before noncontrolling interest	137.2	352.8	(215.6)
Loss (income) from discontinued operations, net of tax	2.4	(170.2)	172.6
Income from continuing operations, net of tax	139.6	182.6	(43.0)
Additions:			
Depreciation and amortization	96.4	63.6	32.8
Interest expense	70.9	40.1	30.8
Loss on extinguishment of debt	—	—	—
Income tax provision (benefit)	56.8	51.3	5.5
EBITDA	\$ 363.7	\$ 337.6	\$ 26.1
Adjustments to EBITDA:			
Selling, general and administrative:			
Stock-based compensation expense	\$ 23.8	\$ 17.7	\$ 6.1
Legal reserves	3.6	—	3.6
Other, net	0.4	(0.6)	1.0
Pre-opening expense	5.1	4.8	0.3
Other income, expense:			
Interest, depreciation and amortization expense related to equity investments	32.6	13.9	18.7
Changes in fair value of Midwest Gaming's interest rate swaps	12.4	—	12.4
Midwest Gaming's recapitalization and transactions costs	4.7	—	4.7
Other charges and recoveries, net	(0.2)	—	(0.2)
Gain on Ocean Downs/Saratoga transaction	—	(54.9)	54.9
Transaction expense, net	5.3	10.3	(5.0)
Total adjustments to EBITDA	87.7	(8.8)	96.5
Adjusted EBITDA	\$ 451.4	\$ 328.8	\$ 122.6

Consolidated Balance Sheet

The following table is a summary of our overall financial position:

<i>(in millions)</i>	As of December 31,		
	2019	2018	Change
Total assets	\$ 2,551.0	\$ 1,725.2	\$ 825.8
Total liabilities	2,040.0	1,251.9	788.1
Total shareholders' equity	511.0	473.3	37.7

- Total assets increased \$825.8 million driven by a \$526.4 million increase in investment in and advances to unconsolidated affiliates due to our equity investment in Midwest Gaming; a \$179.8 million increase in property and equipment, net due to the Presque Isle Transaction, the construction of Oak Grove, and the implementation of the new leasing standard; a \$105.8 million increase in other intangibles and a \$29.1 million increase in goodwill both of which were due to the Presque Isle Transaction and Turfway Park Acquisition; an \$8.5 million increase in accounts

receivable driven by Churchill Downs Racetrack and the Presque Isle Transaction; and a \$13.3 million increase in all other assets. Partially offsetting these increases was a \$37.1 million decrease in cash and cash equivalents primarily due to our equity investment in Midwest Gaming, the Presque Isle Transaction, and the Turfway Park Acquisition.

- Total liabilities increased \$788.1 million driven by a \$592.9 million increase in notes payable, net of debt issuance costs due to the issuance of the 2027 Senior Notes (as defined below); a \$134.6 increase in deferred income taxes primarily due to our equity investment in Midwest Gaming; a \$38.2 million increase in accrued expense and other current liabilities primarily driven by the Presque Isle Transaction, the construction of Oak Grove, and an increase in interest payable due to the increase in outstanding debt; and a \$23.7 million increase in other liabilities primarily as a result of the implementation of the new leasing standard. Partially offsetting these increases was a \$1.3 million decrease in all other liabilities.
- Total shareholders' equity increased \$37.7 million driven by \$137.5 million current year net income attributable to Churchill Downs Incorporated and a \$23.8 million increase resulting from stock-based compensation. Partially offsetting these increases were \$93.0 million in repurchases of common stock, \$23.4 million from our annual dividend declared in December 2019, and a \$7.2 million decrease in other equity components.

Liquidity and Capital Resources

The following table is a summary of our liquidity and cash flows:

<i>(in millions)</i>	Year Ended December 31,		Change
	2019	2018	
Cash Flows from:			
Operating activities	\$ 289.6	\$ 197.8	\$ 91.8
Investing activities	(781.2)	824.1	(1,605.3)
Financing activities	460.8	(933.3)	1,394.1

Included in cash flows from investing activities are capital maintenance expenditures and capital project expenditures. Capital maintenance expenditures relate to the replacement of existing fixed assets with a useful life greater than one year that are obsolete, exhausted, or no longer cost effective to repair. Capital project expenditures represent fixed asset additions related to land or building improvements to new or existing assets or purchases of new (non-replacement) equipment or software related to specific projects deemed necessary expenditures.

Year Ended December 31, 2019, Compared to the Year Ended December 31, 2018

- Cash provided by operating activities increased \$91.8 million driven by a \$59.7 million increase in operating income net of depreciation and amortization related to continuing operations, a \$25.1 million decrease in cash taxes paid, an \$18.3 million increase in distributed earnings from equity investments primarily related to Midwest Gaming, and a \$19.3 million increase from all other operating activities. Partially offsetting this increase was a \$30.6 million increase in cash paid for interest as a result of higher outstanding debt balances. We anticipate that cash flows from operations over the next twelve months will be adequate to fund our business operations and capital expenditures.
- Cash used in investing activities increased \$1,605.3 million driven by a \$970.7 million decrease in cash proceeds as a result of the Big Fish Transaction occurring in 2018, a \$410.1 million increase in cash used for the equity investment in Midwest Gaming, a \$219.7 million increase in cash used to complete the Presque Isle Transaction and the Turfway Park Acquisition, and a \$32.1 million increase in the use of funds for other intangible assets. Partially offsetting these increases was an \$18.2 million decrease in capital project expenditures and \$9.1 million decrease in funds used in other investing activities.
- Cash provided by financing activities increased \$1,394.1 million driven by a \$842.0 million increase in net borrowings under our long-term debt obligations primarily related to the issuance of our 2027 Senior Notes and acquisition of businesses, a \$436.4 million decrease in share repurchases primarily related to the Dutch Auction repurchase in 2018, a \$58.2 million decrease in Big Fish Games earnout and deferred payments from 2018 that did not recur in 2019, a \$54.7 million decrease related to the repayment of the Ocean Downs debt in 2018 that did not recur in 2019, and a \$2.8 million decrease from other financing activities.

Credit Facilities and Indebtedness

The following table presents our debt outstanding, bond premium and debt issuance costs:

(in millions)	As of December 31,		Change
	2019	2018	
Term Loan B due 2024	\$ 392.0	\$ 396.0	\$ (4.0)
2027 Senior Notes	600.0	—	600.0
2028 Senior Notes	500.0	500.0	—
Total Debt	1,492.0	896.0	596.0
Current maturities of long-term debt	4.0	4.0	—
Total debt, net of current maturities	1,488.0	892.0	596.0
Issuance cost and fees	(18.1)	(11.7)	(6.4)
Net debt	\$ 1,469.9	\$ 880.3	\$ 589.6

2017 Credit Agreement

On December 27, 2017, we entered into a senior secured credit agreement (the "2017 Credit Agreement") with a syndicate of lenders. The 2017 Credit Agreement replaced our 2014 senior secured credit agreement (the "2014 Credit Agreement"). The 2017 Credit Agreement provides for a \$700.0 million senior secured revolving credit facility due 2022 (the "Revolver") and a \$400.0 million senior secured term loan B due 2024 (the "Term Loan B"). Included in the maximum borrowing of \$700.0 million under the Revolver is a letter of credit sub facility not to exceed \$50.0 million and a swing line commitment up to a maximum principal amount of \$50.0 million. We had \$694.4 million of available borrowing capacity, after consideration of \$5.6 million in outstanding letters of credit, under the Revolver as of December 31, 2019. The 2017 Credit Amendment is secured by substantially all wholly-owned assets of the Company.

The Revolver bears interest at LIBOR plus a spread as determined by the Company's consolidated total net leverage ratio and the Term Loan B bears interest at LIBOR plus 200 basis points.

The 2017 Credit Agreement contains certain customary affirmative and negative covenants, which include limitations on liens, investments, indebtedness, dispositions, mergers and acquisitions, the making of restricted payments, changes in the nature of business, changes in fiscal year, and transactions with affiliates. The 2017 Credit Agreement also contains financial covenants providing for the maintenance of a maximum consolidated secured net leverage ratio and the maintenance of a minimum consolidated interest coverage ratio. The Company was in compliance with all applicable covenants in the 2017 Credit Agreement at December 31, 2019. At December 31, 2019, the financial ratios under our 2017 Credit Agreement were as follows:

	Actual	Requirement
Interest coverage ratio	5.6 to 1.0	> 2.5 to 1.0
Consolidated total secured net leverage ratio	0.6 to 1.0	< 4.0 to 1.0

The Term Loan B requires quarterly payments of 0.25% of the original \$400.0 million balance, or \$1.0 million per quarter. The Term Loan B may be subject to additional mandatory prepayment from excess cash flow on an annual basis per the provisions of the 2017 Credit Agreement. The Company is required to pay a commitment fee on the unused portion of the Revolver determined by a pricing grid based on the consolidated total net leverage ratio of the Company. For the period ended December 31, 2019, the Company's commitment fee rate was 0.30%.

As a result of the Company's 2017 Credit Agreement, the Company capitalized \$1.6 million of debt issuance costs associated with the Revolver which will be amortized as interest expense over 5 years. The Company also capitalized \$5.1 million of deferred financing costs associated with the Term Loan B which will be amortized as interest expense over 7 years.

2027 Senior Notes

On March 25, 2019, we completed an offering of \$600.0 million in aggregate principal amount of 5.50% Senior Unsecured Notes that mature on April 1, 2027 (the "2027 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The 2027 Senior Notes were issued at par, with interest payable on April 1st and October 1st of each year, commencing on October 1, 2019. The Company used the net

proceeds from the offering to repay our outstanding balance on the Revolver portion of our 2017 Credit Agreement. In connection with the offering, we capitalized \$8.9 million of debt issuance costs which are being amortized as interest expense over the term of the 2027 Senior Notes.

The 2027 Senior Notes were issued pursuant to an indenture, dated March 25, 2019 (the "2027 Indenture"), among the Company, certain subsidiaries of the Company as guarantors (the "2027 Guarantors"), and U.S. Bank National Association, as trustee. The Company may redeem some or all of the 2027 Senior Notes at any time prior to April 1, 2022, at a price equal to 100% of the principal amount of the 2027 Senior Notes redeemed plus an applicable make-whole premium. On or after such date, the Company may redeem some or all of the 2027 Senior Notes at redemption prices set forth in the 2027 Indenture. In addition, at any time prior to April 1, 2022, the Company may redeem up to 40% of the aggregate principal amount of the 2027 Senior Notes at a redemption price equal to 105.50% of the principal amount thereof with the net cash proceeds of one or more equity offerings provided that certain conditions are met. The terms of the 2027 Indenture, among other things, limit the ability of the Company to: (i) incur additional debt and issue preferred stock; (ii) pay dividends or make other restricted payments; (iii) make certain investments; (iv) create liens; (v) allow restrictions on the ability of certain of our subsidiaries to pay dividends or make other payments; (vi) sell assets; (vii) merge or consolidate with other entities; and (viii) enter into transactions with affiliates.

In connection with the issuance of the 2027 Senior Notes, the Company and the 2027 Guarantors entered into a Registration Rights Agreement to register any 2027 Senior Notes under the Securities Act for resale that are not freely tradable 366 days from March 25, 2019.

2028 Senior Notes

On December 27, 2017, we completed an offering of \$500.0 million in aggregate principal amount of 4.75% Senior Unsecured Notes that mature on January 15, 2028 (the "2028 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act, and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The 2028 Senior Notes were issued at par, with interest payable on January 15th and July 15th of each year, commencing on July 15, 2018. The Company used the net proceeds from the 2028 Senior Notes and the 2017 Credit Agreement to repay the remaining outstanding amount of our \$600.0 million 5.375% Senior Unsecured Notes that were scheduled to mature on December 15, 2021. In connection with the offering, we capitalized \$7.7 million of debt issuance costs which are being amortized as interest expense over the term of the 2028 Senior Notes.

The 2028 Senior Notes were issued pursuant to an indenture, dated December 27, 2017 (the "2028 Indenture"), among the Company, certain subsidiaries of the Company as guarantors (the "2028 Guarantors"), and U.S. Bank National Association, as trustee. The Company may redeem some or all of the 2028 Senior Notes at any time prior to January 15, 2023, at a price equal to 100% of the principal amount of the 2028 Senior Notes redeemed plus an applicable make-whole premium. On or after such date the Company may redeem some or all of the 2028 Senior Notes at redemption prices set forth in the 2028 Indenture. In addition, at any time prior to January 15, 2021, the Company may redeem up to 40% of the aggregate principal amount of the 2028 Senior Notes at a redemption price equal to 104.75% of the principal amount thereof with the net cash proceeds of one or more equity offerings provided that certain conditions are met. The terms of the 2028 Indenture, among other things, limit the ability of the Company to: (i) incur additional debt and issue preferred stock; (ii) pay dividends or make other restricted payments; (iii) make certain investments; (iv) create liens; (v) allow restrictions on the ability of certain of our subsidiaries to pay dividends or make other payments; (vi) sell assets; (vii) merge or consolidate with other entities; and (viii) enter into transactions with affiliates.

In connection with the issuance of the 2028 Senior Notes, the Company and the 2028 Guarantors entered into a Registration Rights Agreement to register any 2028 Senior Notes under the Securities Act for resale that are not freely tradable 366 days from December 27, 2017.

Contractual Obligations

Our commitments to make future payments as of December 31, 2019, are estimated as follows:

<i>(in millions)</i>	<u>2020</u>	<u>2021-2022</u>	<u>2023-2024</u>	<u>Thereafter</u>	<u>Total</u>
Dividends	\$ 23.5	\$ —	\$ —	\$ —	\$ 23.5
Term Loan B	4.0	8.0	380.0	—	392.0
Interest on Term Loan B ⁽¹⁾	15.1	29.6	28.9	—	73.6
2027 Senior Notes	—	—	—	600.0	600.0
2028 Senior Notes	—	—	—	500.0	500.0
Interest on 2027 Senior Notes	33.0	66.0	66.0	82.5	247.5
Interest on 2028 Senior Notes	23.8	47.5	47.5	83.1	201.9
Operating leases	5.6	9.1	6.7	8.3	29.7
Total	<u>\$ 105.0</u>	<u>\$ 160.2</u>	<u>\$ 529.1</u>	<u>\$ 1,273.9</u>	<u>\$ 2,068.2</u>

(1) Interest includes the estimated contractual payments under our 2017 Credit Facility assuming no change in the weighted average borrowing rate of 3.80%, which was the rate in place as of December 31, 2019.

As of December 31, 2019, we had approximately \$1.8 million of unrecognized tax benefits.

Critical Accounting Policies and Estimates

Our significant accounting policies and recently adopted accounting policies are more fully described in Note 2 to the notes to consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Our consolidated financial statements have been prepared in conformity with GAAP, which requires management 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 revenue and expense during the reporting period. Actual results may differ from those initial estimates.

Our critical accounting estimates relate to goodwill and certain indefinite-lived intangible assets.

Goodwill and certain indefinite-lived intangible assets

Acquisition of certain identifiable indefinite-lived intangible assets

In conjunction with the acquisition of a business, the Company records identifiable indefinite-lived intangible assets acquired at their respective fair values as of the date of acquisition. Our indefinite-lived intangible assets primarily consist of gaming rights and trademarks. Gaming rights and trademarks are considered indefinite-lived intangible assets that do not require amortization based on our future expectations to operate our gaming facilities and use the trademarks indefinitely, and our historical experience in renewing these intangible assets at minimal cost with various state gaming commissions.

We use various valuation methods to determine initial fair value of our indefinite-lived intangible assets, including the Greenfield method and relief-from-royalty method of the income approach, all of which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. The use of these valuation methods requires us to make significant estimates and assumptions about future revenue and operating expenses, expected start-up costs, royalty rate and the discount rate. The fair values of gaming rights are generally determined using the Greenfield method, which is an income approach methodology that calculates the present value of the overall business enterprise based on a projected cash flow stream. This method assumes that the gaming rights provides the opportunity to develop a casino in a specified region, and that the present value of the projected cash flows are a result of the realization of advantages contained in these rights. Under this methodology, the acquirer is expected to absorb all start-up costs, as well as incur all expenses pertaining to the acquisition and/or the creation of all tangible and intangible assets. The estimated future revenue and operating expenses, start-up costs of the acquired business, and the discount rate are the primary assumptions and estimates used in these valuations. The fair values of trademarks are generally determined using the relief-from-royalty method of the income approach, which estimates the fair value of the intangible asset by discounting the fair value of the hypothetical royalty payments a market participant would be willing to pay to enjoy the benefits of the trademarks. The estimated future revenue, royalty rate, and the discount rate are the primary assumptions and estimates used in these valuations. The discount rates used to discount expected future cash flows to present value are generally derived from the weighted average cost of capital analysis and adjusted for the size and/or risk of the asset.

Assessments of goodwill and indefinite-lived intangible assets

We perform our annual review for impairment of goodwill and indefinite-lived intangible assets on April 1 of each fiscal year, or more frequently if events or changes in circumstances indicate that it is more likely than not the asset is impaired. Adverse industry or economic trends, lower projections of profitability, or a sustained decline in our market capitalization, among other items, may be indications of potential impairment issues which are triggering events requiring the testing of an asset's carrying value for recoverability.

Goodwill and indefinite-lived intangible assets are required to be tested annually or more frequently if events or changes in circumstances indicate that it is more likely than not that an asset is impaired. An entity may first assess qualitative factors to determine whether it is necessary to complete the two-step impairment test using a more likely than not criteria. If an entity believes it is more likely than not that the fair value of a reporting unit is greater than its carrying value, including goodwill, the quantitative impairment test can be bypassed. Alternatively, an entity has an unconditional option to bypass the qualitative assessment and proceed directly to performing the two-step quantitative impairment test. Qualitative factors include macroeconomic conditions, industry and market conditions, cost factors and overall financial performance, among others. These factors require significant judgments and estimates, and application of alternative assumptions could produce materially different results. Evaluations of possible impairment utilizing the two-step approach require us to estimate, among other factors, forecasts of future operating results, revenue growth, EBITDA margin, tax rates, capital expenditures, depreciation, working capital, weighted average cost of capital, long-term growth rates, risk premiums, terminal values, and fair values of our reporting units and assets. The goodwill impairment test is subject to uncertainties arising from such events as changes in competitive conditions, the current general economic environment, material changes in growth rate assumptions that could positively or negatively impact anticipated future operating conditions and cash flows, changes in the discount rate, and the impact of strategic decisions. If any of these factors were to materially change, such change may require a reevaluation of our goodwill. Changes in estimates or the application of alternative assumptions could produce significantly different results.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks arising from adverse changes in:

- general economic trends; and
- interest rate and credit risk.

General economic trends

Our business is sensitive to consumer confidence and reductions in consumers' discretionary spending, which may result from challenging economic conditions, unemployment levels and other changes in the economy. Demand for entertainment and leisure activities is sensitive to consumers' disposable incomes, which can be adversely affected by economic conditions and unemployment levels. This could result in fewer patrons visiting our racetracks, gaming and wagering facilities, and online wagering sites and/or may impact our customers' ability to wager with the same frequency and to maintain wagering levels.

Interest rate and credit risk

Our primary exposure to market risk relates to changes in interest rates. At December 31, 2019, we had \$392.0 million outstanding under our 2017 Credit Agreement, 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 facility remains constant, a one-percentage point increase in the LIBOR rate would reduce net income and cash flows from operating activities by \$2.8 million. As was announced in July 2017, LIBOR is anticipated to be phased out by the end of 2021. We are unable to predict the use of alternative reference rates and corresponding interest rate risk at this time.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the years ended December 31,

(in millions, except per common share data)

	2019	2018	2017
Net revenue:			
Churchill Downs	\$ 274.2	\$ 195.8	\$ 161.3
Online Wagering	290.5	290.2	255.6
Gaming	692.4	449.5	389.3
All Other	72.6	73.5	76.4
Total net revenue	<u>1,329.7</u>	<u>1,009.0</u>	<u>882.6</u>
Operating expense:			
Churchill Downs	163.8	116.3	89.5
Online Wagering	205.8	196.1	170.2
Gaming	528.1	331.0	293.8
All Other	89.0	75.9	75.9
Selling, general and administrative expense	122.0	90.6	83.5
Impairment of tangible and other intangible assets	—	—	21.7
Transaction expense, net	5.3	10.3	2.3
Total operating expense	<u>1,114.0</u>	<u>820.2</u>	<u>736.9</u>
Operating income	<u>215.7</u>	<u>188.8</u>	<u>145.7</u>
Other income (expense):			
Interest expense, net	(70.9)	(40.1)	(49.3)
Loss on extinguishment of debt	—	—	(20.7)
Equity in income of unconsolidated investments	50.6	29.6	25.5
Gain on Ocean Downs/Saratoga transaction	—	54.9	—
Miscellaneous, net	1.0	0.7	1.3
Total other (expense) income	<u>(19.3)</u>	<u>45.1</u>	<u>(43.2)</u>
Income from continuing operations before provision for income taxes	196.4	233.9	102.5
Income tax (provision) benefit	(56.8)	(51.3)	19.9
Income from continuing operations, net of tax	139.6	182.6	122.4
(Loss) income from discontinued operations, net of tax	(2.4)	170.2	18.1
Net income	137.2	352.8	140.5
Net loss attributable to noncontrolling interest	(0.3)	—	—
Net income attributable to Churchill Downs Incorporated	<u>\$ 137.5</u>	<u>\$ 352.8</u>	<u>\$ 140.5</u>
Net income (loss) per common share data - basic:			
Continuing operations	\$ 3.49	\$ 4.42	\$ 2.59
Discontinued operations	\$ (0.06)	\$ 4.12	\$ 0.38
Net income per common share - basic	<u>\$ 3.43</u>	<u>\$ 8.54</u>	<u>\$ 2.97</u>
Net income (loss) per common share data - diluted:			
Continuing operations	\$ 3.44	\$ 4.39	\$ 2.55
Discontinued operations	\$ (0.06)	\$ 4.09	\$ 0.37
Net income per common share - diluted	<u>\$ 3.38</u>	<u>\$ 8.48</u>	<u>\$ 2.92</u>
Weighted average shares outstanding:			
Basic	40.1	41.3	47.2
Diluted	40.6	41.6	48.0
Other comprehensive income (loss):			
Foreign currency translation, net of tax	\$ —	\$ 0.6	\$ (0.1)
Change in pension benefits, net of tax	—	(0.2)	—
Other comprehensive income (loss)	—	0.4	(0.1)
Comprehensive income attributable to Churchill Downs Incorporated	<u>\$ 137.5</u>	<u>\$ 353.2</u>	<u>\$ 140.4</u>

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED BALANCE SHEETS
December 31,

(in millions)

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 96.2	\$ 133.3
Restricted cash	46.3	40.0
Accounts receivable, net of allowance for doubtful accounts of \$4.4 in 2019 and \$4.0 in 2018	37.3	28.8
Income taxes receivable	14.5	17.0
Other current assets	26.9	22.4
Total current assets	221.2	241.5
Property and equipment, net	937.3	757.5
Investment in and advances to unconsolidated affiliates	634.5	108.1
Goodwill	367.1	338.0
Other intangible assets, net	369.8	264.0
Other assets	21.1	16.1
Total assets	\$ 2,551.0	\$ 1,725.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 57.8	\$ 47.0
Accrued expenses and other current liabilities	173.4	135.2
Current deferred revenue	42.5	47.9
Current maturities of long-term debt	4.0	4.0
Dividends payable	23.5	22.5
Total current liabilities	301.2	256.6
Long-term debt (net of current maturities and loan origination fees of \$4.0 in 2019 and \$4.7 in 2018)	384.0	387.3
Notes payable (net of debt issuance costs of \$14.1 in 2019 and \$7.0 in 2018)	1,085.9	493.0
Non-current deferred revenue	16.7	21.1
Deferred income taxes	212.8	78.2
Other liabilities	39.4	15.7
Total liabilities	2,040.0	1,251.9
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 0.3 shares authorized; no shares issued or outstanding	—	—
Common stock, no par value; 150.0 shares authorized; 39.7 shares issued and outstanding in 2019 and 40.4 in 2018	—	—
Retained earnings	509.2	474.2
Accumulated other comprehensive loss	(0.9)	(0.9)
Total Churchill Downs Incorporated shareholders' equity	508.3	473.3
Noncontrolling interest	2.7	—
Total shareholders' equity	511.0	473.3
Total liabilities and shareholders' equity	\$ 2,551.0	\$ 1,725.2

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, 2019, 2018 and 2017

<i>(in millions, except per common share data)</i>	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Shareholders' Equity
	Shares	Amount				
Balance, December 31, 2016	49.5	\$ 116.5	\$ 569.7	\$ (1.2)	\$ —	\$ 685.0
Net income			140.5			140.5
Issuance of common stock	0.1	2.1				2.1
Repurchase of common stock	(3.4)	(138.4)	(42.5)			(180.9)
Taxes paid related to net share settlement of stock awards	(0.2)		(10.0)			(10.0)
Issuance of restricted stock awards, net of forfeitures	0.2	—				—
Stock-based compensation		27.1				27.1
Cash dividends \$0.507 per share)			(23.4)			(23.4)
Foreign currency translation adjustment, net of \$(0.1) tax				(0.1)		(0.1)
Balance, December 31, 2017	46.2	7.3	634.3	(1.3)	—	640.3
Net income			352.8			352.8
Issuance of common stock	0.3	1.5				1.5
Repurchase of common stock	(6.1)	(29.9)	(504.0)			(533.9)
Taxes paid related to net share settlement of stock awards	(0.1)		(15.6)			(15.6)
Issuance of restricted stock awards, net of forfeitures	0.1	—				—
Stock-based compensation		21.1				21.1
Adoption of ASC 606			29.7			29.7
Cash dividends (\$0.543 per share)			(23.0)			(23.0)
Foreign currency translation, net of \$(0.1) tax				0.6		0.6
Change in pension benefits, net of \$(0.1) tax				(0.2)		(0.2)
Balance, December 31, 2018	40.4	—	474.2	(0.9)	—	473.3
Net income			137.5		(0.3)	137.2
Contributions from noncontrolling interest					3.0	3.0
Issuance of common stock	0.2	1.9				1.9
Repurchase of common stock	(0.9)	(25.7)	(67.3)			(93.0)
Taxes paid related to net share settlement of stock awards	(0.1)		(11.5)			(11.5)
Issuance of restricted stock awards, net of forfeitures	0.1	—				—
Stock-based compensation		23.8				23.8
Adoption of ASC 842			(0.3)			(0.3)
Cash dividends (\$0.581 per share)			(23.4)			(23.4)
Balance, December 31, 2019	39.7	\$ —	\$ 509.2	\$ (0.9)	\$ 2.7	\$ 511.0

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,

<i>(in millions)</i>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:			
Net income	\$ 137.2	\$ 352.8	\$ 140.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	96.4	63.6	97.1
Equity in income of unconsolidated affiliates	(50.6)	(29.6)	(25.5)
Distributions from unconsolidated affiliates	38.1	19.8	18.0
Stock-based compensation	23.8	21.1	27.1
Deferred income taxes	31.5	36.5	(65.0)
Amortization of operating lease assets	4.6	—	—
Loss on impairment of assets	—	—	21.7
Loss on extinguishment of debt	—	—	20.7
Gain on Ocean Downs/Saratoga transaction	—	(54.9)	—
Gain on sale of Big Fish Games	—	(219.5)	—
Game software development amortization	—	0.4	17.5
Other	2.8	(1.6)	(0.6)
Changes in operating assets and liabilities, net of businesses acquired and dispositions:			
Game software development	—	(0.3)	(22.1)
Income taxes	2.5	13.8	(27.4)
Deferred revenue	(9.3)	(10.3)	17.2
Other assets and liabilities	12.6	6.0	(4.1)
Net cash provided by operating activities	<u>289.6</u>	<u>197.8</u>	<u>215.1</u>
Cash flows from investing activities:			
Capital maintenance expenditures	(48.3)	(29.6)	(33.3)
Capital project expenditures	(82.9)	(119.8)	(83.6)
Acquisition of businesses, net of cash acquired	(206.6)	13.1	(24.2)
Investments in and advances to unconsolidated affiliates	(410.1)	—	(24.0)
Acquisition of other intangible assets	(32.1)	—	—
Proceeds from sale of Big Fish Games	—	970.7	—
Receivable from escrow	—	—	13.6
Other	(1.2)	(10.3)	(2.1)
Net cash (used in) provided by investing activities	<u>(781.2)</u>	<u>824.1</u>	<u>(153.6)</u>
Cash flows from financing activities:			
Proceeds from borrowings under long-term debt obligations	1,236.3	135.0	2,050.4
Repayments of borrowings under long-term debt obligations	(640.3)	(381.0)	(1,835.8)
Payment of dividends	(22.2)	(23.7)	(21.5)
Repurchase of common stock	(95.0)	(531.4)	(180.9)
Taxes paid related to net share settlement of stock awards	(11.5)	(15.6)	(10.0)
Repayment of Ocean Downs debt	—	(54.7)	—
Big Fish Games earnout and deferred payments	—	(58.2)	(31.8)
Call premium on 2021 Senior Notes	—	—	(16.1)
Debt issuance costs	(8.9)	(0.8)	(14.4)
Other	2.4	(2.9)	0.6
Net cash provided by (used in) financing activities	<u>460.8</u>	<u>(933.3)</u>	<u>(59.5)</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	<u>(30.8)</u>	<u>88.6</u>	<u>2.0</u>
Effect of exchange rate changes on cash	—	(0.8)	0.5
Cash, cash equivalents and restricted cash, beginning of year	173.3	85.5	83.0
Cash, cash equivalents and restricted cash, end of year	<u>\$ 142.5</u>	<u>\$ 173.3</u>	<u>\$ 85.5</u>

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
for the years ended December 31,

<i>(in millions)</i>	2019	2018	2017
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 61.7	\$ 31.1	\$ 47.5
Income taxes	23.5	48.6	75.9
Schedule of non-cash investing and financing activities:			
Dividends payable	\$ 23.5	\$ 22.5	\$ 23.7
Deferred tax liability assumed from equity investment	103.2	—	—
Property and equipment additions included in accounts payable and accrued expense and other current liabilities	12.4	6.6	9.6
Repurchase of common stock in payment of income taxes on stock-based compensation included in accrued expense and other current liabilities	3.9	2.5	1.3
Repurchase of common stock included in accrued expense and other current liabilities	0.5	2.5	—
Acquisition of Ocean Downs, net of cash acquired	—	115.2	—

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

1. DESCRIPTION OF BUSINESS

Churchill Downs Incorporated (the "Company", "we", "us", "our") is an industry-leading racing, online wagering and gaming entertainment company anchored by our iconic flagship event - *The Kentucky Derby*. We own and operate Derby City Gaming, a historical racing machine ("HRM") facility in Louisville, Kentucky. We also own and operate the largest online horse racing wagering platform in the U.S., TwinSpires.com, and we operate sports betting and iGaming through our BetAmerica platform in multiple states. We are also a leader in brick-and-mortar casino gaming with approximately 11,000 slot machines and video lottery terminals ("VLTs") and 200 table games in eight states. We were organized as a Kentucky corporation in 1928, and our principal executive offices are located in Louisville, Kentucky.

Segments

During the first quarter of 2019, we realigned our operating segments to reflect the internal management reporting used by our chief operating decision maker to evaluate results of operations and to assess performance and allocate resources. Our internal management reporting changed primarily due to the continued growth in our Churchill Downs Racetrack and Derby City Gaming business and our casino and associated racing businesses, which resulted in our chief operating decision maker's decision to realign our operating segments primarily based on the regulatory licenses governing each business. Since each of these individual businesses operates under single or interdependent licenses, each of these businesses represents an operating segment. As our TwinSpires business and online sports betting and iGaming businesses are managed together, these businesses represent an operating segment. For financial reporting purposes, we aggregate our operating segments that are similar into three reportable segments as follows:

- ***Churchill Downs***

The Churchill Downs segment includes live and historical pari-mutuel racing related revenue and expenses at Churchill Downs Racetrack and Derby City Gaming.

Churchill Downs Racetrack is the home of *The Kentucky Derby* and conducts live racing during the year. Derby City Gaming is an HRM facility that operates under the Churchill Downs pari-mutuel racing license at its auxiliary training facility in Louisville, Kentucky.

Churchill Downs Racetrack and Derby City Gaming earn commissions primarily from pari-mutuel wagering on live races at Churchill Downs and on historical races at Derby City Gaming; simulcast fees earned from other wagering sites; admissions, personal seat licenses, sponsorships, television rights, and other miscellaneous services (collectively "racing event-related services"), as well as food and beverage services.

- ***Online Wagering***

The Online Wagering segment includes the revenue and expenses for the TwinSpires business ("TwinSpires") and the online sports betting and iGaming business.

TwinSpires operates our online horse racing wagering business on TwinSpires.com, BetAmerica.com and other white-label platforms; facilitates high dollar wagering by international customers ("Velocity"); and provides the Bloodstock Research Information Services ("BRIS") platform for horse racing statistical data.

Our sports betting and iGaming business operates the BetAmerica sports betting and casino iGaming platform in multiple states, including Mississippi, New Jersey, Indiana, Pennsylvania, and Arkansas. The mobile and online BetAmerica sports betting and casino iGaming results are included in the Online Wagering segment and the retail operations are included in the Gaming segment.

- ***Gaming***

The Gaming segment includes revenue and expenses for the casino properties and associated racetrack or jai alai facilities which support the casino license as applicable. The Gaming segment has approximately 11,000 slot machines and video lottery terminals ("VLTs") and 200 table games located in eight states.

The Gaming segment revenue and expenses includes the following properties:

- Calder Casino and Racing ("Calder")
- Fair Grounds Slots, Fair Grounds Race Course, and Video Services, LLC ("VSI") (collectively, "Fair Grounds and VSI")

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- Harlow's Casino Resort and Spa ("Harlow's")
- Lady Luck Casino Nemacolin ("Lady Luck Nemacolin") management agreement
- Ocean Downs Casino and Racetrack ("Ocean Downs")
- Oxford Casino and Hotel ("Oxford")
- Presque Isle Downs and Casino ("Presque Isle")
- Riverwalk Casino Hotel ("Riverwalk")

The Gaming segment also includes net income for our ownership portion of the Company's equity investments in the following:

- 61.3% equity investment in Midwest Gaming Holdings, LLC ("Midwest Gaming"), the parent company of Rivers Casino Des Plaines in Des Plaines, Illinois ("Rivers Des Plaines")
- 50% equity investment in Miami Valley Gaming and Racing ("MVG")

The Gaming segment generates revenue and expenses from slot machines, table games, VLTs, video poker, retail sports betting, ancillary food and beverage services, hotel services, commission on pari-mutuel wagering, racing event-related services, and / or other miscellaneous operations.

We have aggregated the following businesses as well as certain corporate operations, and other immaterial joint ventures in "All Other" to reconcile to consolidated results:

- Arlington International Racecourse ("Arlington")
- United Tote
- Oak Grove Racing and Gaming ("Oak Grove")
- Turfway Park
- Corporate

We conduct our business through these reportable segments and report net revenue and operating expense associated with these reportable segments in the accompanying consolidated statements of comprehensive income. The prior year results were reclassified to conform to this presentation.

Effective January 1, 2019, the Company does not allocate corporate and other related expenses to the reportable segments in the accompanying consolidated statements of comprehensive income. The prior year results in the accompanying consolidated statements of comprehensive income were reclassified to conform to this presentation.

Acquisitions of Presque Isle and Lady Luck Nemacolin

On January 11, 2019, we completed the acquisition of Presque Isle located in Erie, Pennsylvania from Eldorado Resorts, Inc. ("ERI") for cash consideration of \$178.9 million (the "Presque Isle Transaction") and \$1.6 million of working capital and other purchase price adjustments.

On March 8, 2019, the Company assumed management and acquired certain assets related to the management of Lady Luck Nemacolin in Farmington, Pennsylvania, from ERI for cash consideration of \$100,000 (the "Lady Luck Nemacolin Transaction").

For additional information on the Presque Isle Transaction and the Lady Luck Nemacolin Transaction, refer to Note 3, Acquisitions.

Acquisition of Certain Ownership Interests of Rivers Des Plaines

On March 5, 2019, the Company completed the acquisition of certain ownership interests of Midwest Gaming, the parent company of Rivers Des Plaines to acquire approximately 42% of Midwest Gaming from affiliates and co-investors of Clairvest Group Inc. ("Clairvest") and members of High Plains Gaming, LLC ("High Plains"), an affiliate of Rush Street Gaming, LLC and Casino Investors, LLC ("Casino Investors") for cash consideration of approximately \$406.6 million and \$3.5 million of certain transaction costs and working capital adjustments (the "Sale Transaction"). Following the closing of the Sale Transaction, the parties completed a recapitalization transaction on March 6, 2019 (the "Recapitalization"), pursuant to which Midwest Gaming used approximately \$300.0 million in proceeds from amended and extended credit facilities to redeem, on a pro rata basis, additional Midwest Gaming units held by High Plains and Casino Investors. As a result of the Recapitalization, the Company's ownership of Midwest Gaming increased to 61.3%. High Plains retained ownership of 36.0% of Midwest Gaming and Casino Investors retained ownership of 2.7% of Midwest Gaming.

We also recognized a \$103.2 million deferred tax liability and a corresponding increase in our investment in unconsolidated affiliates related to an entity we acquired in conjunction with our acquisition of the Clairvest ownership stake in Midwest Gaming.

For additional information on the Sale Transaction, refer to Note 14, Investments in and Advances to Unconsolidated Affiliates.

Turfway Park Acquisition

The Company completed the acquisition of Turfway Park from Jack Entertainment LLC ("JACK") and Hard Rock International ("Hard Rock") on October 9, 2019 for total consideration of \$46.0 million in cash ("Turfway Park Acquisition"). Turfway Park is located on 197 acres in Florence, Kentucky. The Company has announced plans and has begun to invest up to \$150.0 million (including the Turfway Park Acquisition total consideration of \$46.0 million) in a state-of-the-art live and historical thoroughbred racing facility at Turfway Park.

Of the \$46.0 million total consideration, \$36.0 million, less \$0.9 million of working capital and purchase price adjustments, was accounted for as a business combination. The remaining \$10.0 million was paid to Hard Rock for the assignment of the purchase and sale agreement rights and was accounted for separately from the business combination as an intangible asset and was amortized through expense in the fourth quarter of 2019. Refer to Note 3, Acquisitions, for additional information on the Turfway Park Acquisition.

Stock Split

On January 25, 2019, the Company distributed the additional shares resulting from a previously announced three-for-one split (the "Stock Split") of the Company's common stock for shareholders of record as of January 11, 2019. Our common stock began trading at the split-adjusted price on January 28, 2019. All share and per-share amounts in the Company's consolidated financial statements and related notes have been retroactively adjusted for prior periods to reflect the effects of the Stock Split.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

We consolidate all subsidiaries in which we have a controlling financial interest and variable interest entities ("VIEs") for which we or one of our consolidated subsidiaries is the primary beneficiary. We consolidate a VIE when we have both the power to direct the activities that most significantly impact the results of the VIE and the right to receive benefits or the obligation to absorb losses of the entity that could be potentially significant to the VIE. WKY Development, LLC, a joint venture owned 95% by the Company, owns Oak Grove, and is consolidated in our accompanying consolidated financial statements. As of December 31, 2019, on a consolidated basis Oak Grove had total assets of \$62.1 million, primarily related to property and equipment, net, and total liabilities of \$9.3 million, primarily related to accrued expenses and other current liabilities.

Use of Estimates

Our financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"), which requires management 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 revenue and expense during the reporting period. Actual results may differ from those initial estimates.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill and indefinite-lived intangible assets are required to be tested annually or more frequently if events or changes in circumstances indicate that it is more likely than not that an asset is impaired. An entity may first assess qualitative factors to determine whether it is necessary to complete the two-step impairment test using a more likely than not criteria. If an entity believes it is more likely than not that the fair value of a reporting unit is greater than its carrying value, including goodwill, the quantitative impairment test can be bypassed. Alternatively, an entity has an unconditional option to bypass the qualitative assessment and proceed directly to performing the two-step quantitative impairment test. Qualitative factors include macroeconomic conditions, industry and market conditions, cost factors and overall financial performance, among others. These factors require judgments and estimates, and application of alternative assumptions could produce significantly different results. Evaluations of possible impairment utilizing the two-step approach require us to estimate, among other factors,

forecasts of future operating results, revenue growth, EBITDA margin, tax rates, capital expenditures, depreciation, working capital, weighted average cost of capital, long-term growth rates, risk premiums, terminal values and fair market values of our reporting units and assets. Changes in estimates or the application of alternative assumptions could produce significantly different results.

We perform our annual review for impairment of goodwill and indefinite-lived intangible assets on April 1 of each fiscal year, or more frequently if events or changes in circumstances indicate that it is more likely than not the relevant asset is impaired. Adverse industry or economic trends, lower projections of profitability, or a sustained decline in our market capitalization, among other items, may be indications of potential impairment issues, which are triggering events requiring the testing of an asset's carrying value for recoverability. Goodwill is allocated and evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment, referred to as a component. We are required to aggregate the components of an operating segment into one reporting unit if they have similar economic characteristics.

Our gaming rights and trademarks are considered indefinite-lived intangible assets that do not require amortization based on our future expectations to operate our gaming facilities and use the trademarks indefinitely and our historical experience in renewing these intangible assets at minimal cost with various state gaming commissions. The indefinite lived-intangible assets carrying value are tested annually, or more frequently, if indicators of impairment exist, by comparing the fair value of the recorded assets to the associated carrying amount. If the carrying amount of the gaming rights and trademark intangible assets exceed fair value, an impairment loss is recognized.

Property and Equipment

We review the carrying value of our property and equipment to be held and used in our operations whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable from estimated future undiscounted cash flows expected to result from its use and eventual disposition. Adverse industry or economic trends, lower projections of profitability, or a significant adverse change in legal factors or in the business climate, among other items, may be indications of potential impairment issues. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, an impairment is recorded based on the fair value of the asset.

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.

Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASC 606") using the modified retrospective method. The adoption of ASC 606 had no impact on cash provided by or used in operating, financing, or investing activities on our accompanying consolidated statements of cash flows. Due to the adoption of ASC 606, we made certain modifications to the classification of net revenue and operating expenses in the Online Wagering segment primarily due to the fact that under ASC 606, we are the principal in all import revenue contracts. Under ASC 606, in circumstances where we make advance sales and advance billings to customers, we recognize a receivable and deferred revenue when we have an unconditional right to receive payment. Previously, we recognized a receivable and deferred revenue at the time of the advance sale and billing if it was probable we would collect the receivable and recognize revenue.

We generate revenue from pari-mutuel wagering transactions with customers related to live races, simulcast races, and historical races as well as simulcast host fees earned from other wagering sites. Our racetracks that host live races also generate revenue through sponsorships, admissions (including luxury suites), personal seat licenses ("PSLs"), television rights, concessions, programs and parking. Concessions, programs, and parking revenue is recognized once the good or service is delivered.

Our live racetracks' revenue and income are influenced by our racing calendar. Similarly, Online Wagering horse racing revenue and income is influenced by racing calendars. Therefore, revenue and operating results for any interim quarter are not generally indicative of the revenue 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 Oaks and Kentucky Derby.

For live races we present at our racetracks, we recognize revenue on wagers we accept from customers at our racetrack ("on-track revenue") and revenue we earn from exporting our live racing signals to other race tracks, off-track betting facilities

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("OTBs"), and advance deposit wagering providers ("export revenue"). For simulcast races we display at our racetracks, OTBs, and Online Wagering platforms, we recognize revenue we earn from providing a wagering service to our customers on these imported live races ("import revenue"). Online Wagering import revenue is generated through advance deposit wagering which consists of patrons wagering through an advance deposit account. Each wagering contract for on-track revenue, and import revenue contains a single performance obligation and our export revenue contracts contain a series of distinct services that form a single performance obligation. The transaction price for on-track revenue and import revenue is fixed based on the established commission rate we are entitled to retain. The transaction price for export revenue is variable based on the simulcast host fee we charge our customers for exporting our signal. We may provide cash incentives in conjunction with wagering transactions we accept from Online Wagering customers. These cash incentives represent consideration payable to a customer and therefore are treated as a reduction of the transaction price for the wagering transaction. Our export revenue contracts generally have a duration of one year or less. These arrangements are licenses of intellectual property containing a usage based royalty. As a result, we have elected to use the practical expedient to omit disclosure related to remaining performance obligations for our export revenue contracts. We recognize on-track revenue, export revenue, and import revenue once the live race event is made official by the relevant racing regulatory body.

We recognize revenue we earn from providing a wagering service to our customers on historical races at our HRM facilities. The transaction price for HRM revenue is based on the established commission rate we are entitled to retain for each wager on the HRM. We recognize HRM revenue once the historical race has been completed on the historical racing machine, net of the liability to the pool.

We evaluate our on-track revenue, export revenue, import revenue, and HRM revenue contracts in order to determine whether we are acting as the principal or as the agent when providing services, which we consider in determining if revenue should be reported gross or net. An entity is a principal if it controls the specified service before that service is transferred to a customer.

The revenue we recognize for on-track revenue, import revenue, and HRM revenue is the commission we are entitled to retain for providing a wagering service to our customers. For these arrangements, we are the principal as we control the wagering service; therefore, any charges, including any applicable simulcast fees, we incur for delivering the wagering service are presented as operating expenses.

For export revenue, our customer is the third-party wagering site such as a racetrack, OTB, or advance deposit wagering provider. Therefore, the revenue we recognize for export revenue is the simulcast host fee we earn for exporting our racing signal to the third-party wagering site.

Our admission contracts are either for a single live racing event day or multiple days. Our PSLs, sponsorships, and television rights contracts generally relate to multiple live racing event days. Multiple day admission, PSLs, sponsorships, and television rights contracts contain a distinct series of services that form single performance obligations. Sponsorships contracts generally include performance obligations related to admissions and advertising rights at our racetracks. Television rights contracts contain a performance obligation related to the rights to distribute certain live racing events on media platforms. The transaction prices for our admissions, PSLs, sponsorships, and television rights contracts are fixed. We allocate the transaction price to our sponsorship contract performance obligations based on the estimated relative standalone selling price of each distinct service.

The revenue we recognize for admissions to a live racing event day is recognized once the related event is complete. For admissions, PSLs, sponsorships, and television rights contracts that relate to multiple live racing event days, we recognize revenue over time using an output method of each completed live racing event day as our measure of progress. Each completed live racing event day corresponds with the transfer of the relevant service to a customer and therefore is considered a faithful depiction of our efforts to satisfy the promises in these contracts. This output method results in measuring the value transferred to date to the customer relative to the remaining services promised under the contracts. Certain premium live racing event days such as the Kentucky Derby and Oaks result in a higher value of revenue allocated relative to other live racing event days due to, among other things, the quality of thoroughbreds racing, higher levels of on-track attendance, national broadcast audience, local and national media coverage, and overall entertainment value of the event. While these performance obligations are satisfied over time, the timing of when this revenue is recognized is directly associated with the occurrence of our live racing events, which is when the majority of our revenues recognized at a point in time are also recognized.

Timing of revenue recognition may differ from the timing of invoicing to customers for our long-term contracts for racing event-related services. We generally invoice customers prior to delivery of services for our admissions, PSLs, sponsorships, and television rights contracts. We recognize a receivable and a contract liability at the time we have an unconditional right to receive payment. When cash is received in advance of delivering services under our contracts, we defer revenue and recognize it in accordance with our policies for that type of contract. In situations where the timing of revenue recognition differs from

the timing of invoicing, we have determined our contracts do not include a significant financing component. The primary purpose of our invoicing terms is to allow our customers to secure the right to the specific services provided under our contracts, not to receive financing from our customers.

Gaming revenue primarily consists of gaming wager transactions. Other operating revenue, such as food and beverage or hotel revenue, is recognized once delivery of the product or service has occurred.

The transaction price for gaming wager transactions is the difference between gaming wins and losses. Gaming wager revenue is recognized when the wager settles.

The majority of our HRM facilities and casinos offer loyalty programs that enable customers to earn loyalty points based on their play. Gaming and HRM wager transactions involve two performance obligations for those customers earning loyalty points under the Company's loyalty programs and a single performance obligation for customers who do not participate in the program. Loyalty points are primarily redeemable for free wagering activities and food and beverage. For purposes of allocating the transaction price in a gaming or HRM wagering transaction between the wagering performance obligation and the obligation associated with the loyalty points earned, the Company allocates an amount to the loyalty point contract liability based on the stand-alone selling price of the points earned, which is determined by the value of a loyalty point that can be redeemed for wagering activities or food and beverage. For gaming wagering transactions, an amount is allocated to the gaming wager performance obligation using the residual approach as the stand-alone price for wagers is highly variable and no set established price exists for such wagers. For HRM wagering transactions, the amount allocated to the HRM wager performance obligation is the commission rate we are entitled to retain. The loyalty point contract liability amount is deferred and recognized as revenue when the customer redeems the points for a wagering transaction or food and beverage and such goods or services are delivered to the customer.

Income Taxes

We use estimates and judgments for financial reporting to determine our current tax liability and deferred taxes. 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 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 our assets and liabilities and measured using 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 expense 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 consolidated balance sheets, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Cash and Cash Equivalents

We consider investments with original maturities of three months or less that are readily convertible to cash to be cash equivalents. We have, from time to time, cash in the bank in excess of federally insured limits. Under our cash management system, checks issued but not yet presented to banks that would result in negative bank balances when presented are classified as a current liability in the accompanying consolidated balance sheets.

Restricted Cash and Account Wagering Deposit Liabilities

Amounts included in restricted cash represent amounts due to horsemen for purses, stakes and awards that are paid in accordance with the terms of our contractual agreements or statutory requirements. Restricted cash also includes deposits collected from our Online Wagering customers.

Allowance for Doubtful Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is maintained at a level considered appropriate based on historical experience and other factors that affect our expectation of future 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.

Internal Use Software

Internal use software costs for Online Wagering software is capitalized in property and equipment, net in the accompanying consolidated balance sheets, in accordance with accounting guidance governing computer software developed or obtained for internal use. Once the software is placed in operation, we amortize the capitalized software over its estimated economic useful life, which is generally three years. We capitalized internal use software of approximately \$9.8 million in 2019, \$9.7 million in 2018, and \$7.2 million in 2017. We incurred amortization expense of approximately \$8.8 million in 2019, \$7.3 million in 2018, and \$6.3 million in 2017, for projects which had been placed in service.

Fair Value of Assets and Liabilities

We adhere 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. We endeavor 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.

Investments in and Advances to Unconsolidated Affiliates

We have investments in unconsolidated affiliates accounted for under the equity method. Under the equity method, carrying value is adjusted for our share of the investees' income and losses, amortization of certain basis differences as well as capital contributions to and distributions from these companies. We use the cumulative earnings approach to present distributions received from equity method investees. Distributions in excess of equity method income are recognized as a return of investment and recorded as investing cash inflows in the accompanying consolidated statements of cash flows. We classify income and losses as well as gains and impairments related to our investments in unconsolidated affiliates as a component of other income (expense) in the accompanying consolidated statements of comprehensive income.

We evaluate our investments in unconsolidated affiliates for impairment whenever events or changes in circumstances indicate that the carrying value of the investment may have experienced an "other-than-temporary" decline in value. If such conditions exist, we compare the estimated fair value of the investment to its carrying value to determine if an impairment is indicated and determine whether the impairment is "other-than-temporary" based on an assessment of all relevant factors, including consideration of our intent and ability to retain our investment until the recovery of the unrealized loss. We estimate fair value using a discounted cash flow analysis based on estimated future results of the investee.

Debt Issuance Costs and Loan Origination Fees

Debt issuance costs and loan origination fees associated with our term debt, revolver, and notes payable are amortized as interest expense over the term of each respective financial instrument. Debt issuance costs and loan origination fees associated with our term debt and notes payable are presented as a direct deduction from the carrying amount of the related liability. Debt issuance costs and loan origination fees associated with our revolver are presented as an asset.

Casino and Pari-mutuel Taxes

We recognize casino and pari-mutuel tax expense based on the statutory requirements of the federal, state, and local jurisdictions in which we conduct business. All of our casino taxes and the majority of our pari-mutuel taxes are gross receipts taxes levied on the gaming entity. We recognize these taxes as Churchill Downs, Online Wagering, Gaming, and All Other operating expenses in our consolidated statements of comprehensive income. In certain jurisdictions governing our pari-mutuel contracts with customers, there are specific pari-mutuel taxes that are assessed on winning wagers from our customers, which we collect and remit to the government. These taxes are presented on a net basis.

Purse Expense

We recognize purse expense based on the statutorily or contractually determined amount that is required to be paid out in the form of purses to the qualifying finishers of horse races run at our racetracks in the period in which wagering occurs. We incur a liability for all unpaid purses that will be paid out on a future live race event.

Self-insurance Accruals

We are self-insured up to certain limits for costs associated with general liability, workers' compensation and employee health coverage, and we purchase insurance for claims that exceed our self-insurance retention or deductible levels. We record self-insurance reserves that include accruals of estimated settlements for known claims ("Case Reserves"), as well as accruals of third-party actuarial estimates for claims incurred but not yet reported ("IBNR"). Case Reserves represent estimated liabilities for unpaid losses, based on a claims administrator's estimates of future payments on individual reported claims, including allocated loss adjustment expense, which generally include claims settlement costs such as legal fees. IBNR includes the provision for unreported claims, changes in case reserves and future payments on reopened claims.

Key variables and assumptions include, but are not limited to, loss development factors and trend factors such as changes in workers' compensation laws, medical care costs and wages. These loss development factors and trend factors are developed using our actual historical losses. It is possible that reasonable alternative selections would produce different reserve estimates.

Advertising and Marketing

We expense the costs of general advertising, marketing and associated promotional expenditures at the time the costs are incurred. We incurred advertising and marketing expense of approximately \$41.8 million in 2019, \$28.8 million in 2018, and \$24.8 million in 2017 in our accompanying consolidated statements of comprehensive income.

Stock-Based Compensation

All stock-based payments to employees and directors, including grants of performance share units and restricted stock, are recognized as compensation expense over the service period based on the fair value on the date of grant. For awards that have a graded vesting schedule, we recognize expense on a straight-line basis for each separately vesting portion of the award. We recognize forfeitures of awards as incurred.

Computation of Net Income per Common Share

Net income per common share is presented for both basic earnings per common share ("Basic EPS") and diluted earnings per common share ("Diluted EPS"). Basic EPS is based upon the weighted average number of common shares outstanding, excluding unvested stock awards, during the period plus vested common stock equivalents that have not yet been converted to common shares. Diluted EPS is based upon the weighted average number of shares used to calculate Basic EPS and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares result from applying the treasury stock method to unvested stock awards.

Common Stock Share Repurchases

From time-to-time, we repurchase shares of our common stock under share repurchase programs authorized by our Board of Directors. Share repurchases constitute authorized but unissued shares under the Kentucky laws under which we are incorporated. Our common stock has no par or stated value. We record the full value of share repurchases, upon the trade date, against common stock on our consolidated balance sheets except when to do so would result in a negative balance in such common stock account. In such instances, we record the cost of any further share repurchases as a reduction to retained earnings. Due to the large number of share repurchases of our common stock over the past several years our common stock balance frequently will be zero at the end of any given reporting period. Refer to Note 9, Shareholders' Equity, for additional information on our share repurchases.

Recent Accounting Pronouncements - Adopted on January 1, 2019

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases, and subsequently issued additional guidance (collectively, "ASC 842"), which requires companies to generally recognize operating and financing lease liabilities and corresponding right-of-use assets ("ROUAs") on the balance sheet. We adopted ASC 842 on January 1, 2019 using the modified transition method. As part of the transition to ASC 842, we elected the package of practical expedients that allowed us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification of any expired or existing leases and (3) initial direct costs of any expired or existing leases. We recognized the cumulative effect of applying ASC 842 as an opening balance sheet adjustment at January 1, 2019. The comparative information has not been retrospectively adjusted and continues to be reported under the accounting standards in effect for those periods.

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The adoption of ASC 842 had no impact on our accompanying consolidated statements of comprehensive income or statements of cash flows. Due to the adoption of ASC 842, we recognized operating lease ROUAs and lease liabilities for our operating leases with lease terms greater than one year. We do not have any material finance leases or any material operating leases where we are the lessor.

The cumulative effects of the changes made to our accompanying consolidated balance sheets as of January 1, 2019 for the adoption of ASC 842 were as follows:

<i>(in millions)</i>	As Reported at December 31, 2018	Adoption of ASC 842	Balance at January 1, 2019
ASSETS			
Other current assets	\$ 22.4	\$ (0.3)	\$ 22.1
Property and equipment, net	757.5	25.3	782.8
LIABILITIES			
Accrued expense and other current liabilities	89.8	3.8	93.6
Other liabilities	15.7	21.5	37.2
SHAREHOLDERS' EQUITY			
Retained earnings	474.2	(0.3)	473.9

Upon adopting ASC 842, we determine if an arrangement is a lease at inception. Operating leases are included in property and equipment, net; accrued expense and other current liabilities; and other liabilities on our consolidated balance sheets. We generally do not separate lease and non-lease components for our lease contracts. We do not apply the ROUA and leases liability recognition requirements to short-term leases.

Operating lease ROUAs and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future lease payments. The operating lease ROUAs also include any lease payments made prior to commencement and exclude lease incentives and initial direct costs incurred. Our lease terms include all non-cancelable periods and may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Recent Accounting Pronouncements - effective in 2020 or thereafter

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses, which introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new model will apply to: (1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, (2) loan commitments and certain other off-balance sheet credit exposures, (3) debt securities and other financial assets measured at fair value through other comprehensive income, and (4) beneficial interests in securitized financial assets. The guidance will become effective in 2020, and is to be applied through a modified retrospective approach during the year of adoption. The Company's implementation activities, which remain in progress, include identifying the financial assets in the scope of the new standard, developing methods to estimate current expected credit losses associated with these financial assets, and determining changes needed to control activities. We do not expect our future adoption of such guidance to have a material impact on our results of operations, financial condition, or cash flows.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other: Internal-Use Software, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance also requires an entity to expense the capitalized implementation costs of a hosting arrangement over the term of the hosting arrangement. The guidance is effective in 2020 with early adoption permitted and may be applied prospectively or retrospectively. As this new guidance is consistent with our current accounting policies, we do not expect our future adoption of such guidance to have a material impact on our results of operations, financial condition, or cash flows.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment. This new guidance simplifies the accounting for goodwill impairments by removing step two from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. The new guidance is effective in 2020 with early adoption permitted for any

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goodwill impairment test performed between January 1, 2017 and January 1, 2020, and is to be applied prospectively. The new guidance will not result in a cumulative adjustment upon adoption and will only be applicable in the event a reporting unit's carrying amount exceeds its fair value when testing goodwill for impairment. As a result, we do not expect our future adoption of such guidance to have a material impact on our results of operations, financial condition, or cash flows.

3. ACQUISITIONS

Presque Isle

On January 11, 2019, the Company completed the Presque Isle Transaction for a cash purchase price of \$178.9 million and \$1.6 million of working capital and other purchase price adjustments. The following table summarizes the fair values of the assets acquired and liabilities assumed, net of cash acquired of \$8.4 million, at the date of the acquisition.

<i>(in millions)</i>	<u>Total</u>
Current assets	\$ 2.1
Property and equipment	78.5
Goodwill	26.1
Intangible assets	71.2
Current liabilities	(5.2)
Non-current liabilities	(0.6)
	<u>\$ 172.1</u>

The fair value of the intangible assets consists of the following:

<i>(in millions)</i>	<u>Fair Value Recognized</u>	<u>Weighted-Average Useful Life</u>
Gaming rights	\$ 56.0	N/A
Trademark	15.2	N/A
Total intangible assets	<u>\$ 71.2</u>	

Current assets and current liabilities were valued at the existing carrying values as these items are short term in nature and represent management's estimated fair value of the respective items at January 11, 2019.

The property and equipment acquired primarily relates to land, buildings, equipment, and furniture and fixtures. The fair value of the land was determined using the market approach and the fair values of the remaining property and equipment were primarily determined using the cost replacement method which is based on replacement or reproduction costs of the assets.

The fair value of the Presque Isle gaming rights was determined using the Greenfield Method, which is an income approach methodology that calculates the present value of the overall business enterprise based on a projected cash flow stream. This method assumes that the gaming rights intangible asset provides the opportunity to develop a casino in a specified region, and that the present value of the projected cash flows are a result of the realization of advantages contained in these rights. Under this methodology, the acquirer is expected to absorb all start-up costs, as well as incur all expenses pertaining to the acquisition and/or the creation of all tangible and intangible assets. The estimated future revenue, future operating expenses, start-up costs, and discount rate were the primary inputs in the valuation. The gaming rights intangible asset was assigned an indefinite useful life based on the Company's expected use of the asset and determination that no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of the gaming rights. The renewal of the gaming rights in Pennsylvania is subject to various legal requirements. However, the Company's historical experience has not indicated, nor does the Company expect, any limitations regarding its ability to continue to renew its gaming rights in Pennsylvania.

The trademark intangible asset was valued using the relief-from-royalty method of the income approach, which estimates the fair value of the intangible asset by discounting the fair value of the hypothetical royalty payments a market participant would be willing to pay to enjoy the benefits of the asset. The estimated future revenue, royalty rate, and discount rate were the primary inputs in the valuation of the trademark. The trademark was assigned an indefinite useful life based on the Company's intention to keep the Presque Isle name for an indefinite period of time.

Goodwill of \$26.1 million was recognized due to the expected contribution of Presque Isle to the Company's overall business strategy. The goodwill was assigned to the Gaming segment and is deductible for tax purposes.

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For the period from the Presque Isle Transaction on January 11, 2019 through December 31, 2019, net revenue was \$138.5 million and net income was not material.

The following unaudited pro forma consolidated financial information for the Company has been prepared assuming the Company's acquisition of Presque Isle occurred as of January 1, 2017. The unaudited pro forma financial information is not necessarily indicative of either future results of operations or results of operations that might have been achieved had the acquisition been consummated as of January 1, 2017. The unaudited pro forma net income giving effect to the Presque Isle Transaction was not materially different than our historical net income.

<i>(in millions)</i>	Year Ended December 31,		
	2019	2018	2017
Net revenue	\$ 1,332.9	\$ 1,150.8	\$ 1,020.5

Lady Luck Nemaquin

On March 8, 2019, the Company completed the Lady Luck Nemaquin Transaction, pursuant to which the Company assumed management and acquired certain assets related to the management of Lady Luck Nemaquin from ERI for cash consideration of \$100,000. The Lady Luck Nemaquin Transaction did not meet the definition of a business and therefore was accounted for as an asset acquisition. The net assets acquired in conjunction with the Lady Luck Nemaquin Transaction were not material.

Turfway Park

On October 9, 2019, the Company completed the Turfway Park Acquisition for total consideration of \$46.0 million. Of the total consideration paid, \$36.0 million was allocated to JACK and accounted for as a business combination. The remaining \$10.0 million was paid to Hard Rock for the assignment of the purchase and sale agreement rights and was accounted for separately from the business combination as an intangible asset and amortized through expense in the fourth quarter of 2019.

The cash purchase price paid to JACK was \$36.0 million, less \$0.9 million of working capital and purchase price adjustments. The preliminary fair values of the assets acquired and liabilities assumed, net of cash acquired of \$0.6 million, at the date of acquisition were as follows: property and equipment (primarily land) of \$18.8 million, indefinite-lived gaming rights of \$9.8 million, indefinite-lived trademark of \$5.5 million, goodwill of \$3.0 million, and current liabilities of \$2.6 million.

The Company has not included other disclosures regarding the Turfway Park Acquisition because the acquisition is immaterial to our business.

Ocean Downs

On July 16, 2018, the Company announced its entry into a tax-efficient partial liquidation agreement (the "Liquidation Agreement") for the remaining 50% ownership of the Casino at Ocean Downs and Ocean Downs Racetrack located in Berlin, Maryland ("Ocean Downs") owned by Saratoga Casino Holdings LLC ("SCH") in exchange for the Company's 25% equity interest in SCH, which is the parent company of Saratoga Casino Hotel in Saratoga Springs, New York ("Saratoga New York") and Saratoga Casino Black Hawk in Black Hawk, Colorado ("Saratoga Colorado") (collectively, the "Ocean Downs/Saratoga Transaction"). On August 31, 2018, the Company closed the Ocean Downs/Saratoga Transaction, which resulted in the Company owning 100% of Ocean Downs and having no further equity interest or management involvement in Saratoga New York or Saratoga Colorado.

As part of the Ocean Downs/Saratoga Transaction, Saratoga Harness Racing, Inc. ("SHRI") has agreed to grant the Company and its affiliates exclusive rights to operate online sports betting and iGaming on behalf of SHRI in New York and Colorado for a period of fifteen years from the date of the Liquidation Agreement, should such states permit SHRI to engage in sports betting and iGaming, subject to payment of commercially reasonable royalties to SHRI.

We consolidated Ocean Downs upon closing of the Ocean Downs/Saratoga Transaction on August 31, 2018. Prior to the Ocean Downs/Saratoga Transaction, the Company held an effective 62.5% ownership interest in Ocean Downs, and a 25% ownership interest in Saratoga New York and Saratoga Colorado, all of which were accounted for under the equity method. The consideration transferred to SCH to acquire the remaining interest in Ocean Downs was the Company's equity investments in Saratoga New York and Saratoga Colorado, which had an aggregate fair value of \$47.8 million at the acquisition date. Under the acquisition method, the fair values of the consideration transferred and the Company's equity method investment in Ocean Downs, which had a fair value of \$80.5 million at the acquisition date, were allocated to the assets acquired and liabilities assumed in the Ocean Downs/Saratoga Transaction. The Company's carrying values in these equity method investments were significantly less than their fair values, resulting in a pre-tax gain of \$54.9 million, which is included in the accompanying consolidated statements of comprehensive income. The fair values of the Company's equity method investments

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in Ocean Downs, Saratoga New York, and Saratoga Colorado were determined under the market and income valuation approaches using inputs primarily related to discounted projected cash flows and price multiples of publicly traded comparable companies.

The following table summarizes the final fair values of the assets acquired and liabilities assumed, net of cash acquired of \$13.1 million, at the acquisition date.

<i>(in millions)</i>	Total
Current assets	\$ 1.9
Property and equipment	57.4
Goodwill	20.4
Intangible assets	95.4
Current liabilities	(5.2)
Debt	(54.7)
	\$ 115.2

The final fair value of the intangible assets consisted of the following:

<i>(in millions)</i>	Fair Value Recognized	Weighted-Average Useful Life
Gaming rights	\$ 87.0	N/A
Trademark	8.3	N/A
Other	0.1	1.3 years
Total intangible assets	\$ 95.4	

Current assets and current liabilities were valued at the existing carrying values due to their short term nature and represented management's estimated fair value of the respective items at August 31, 2018. The debt of \$54.7 million assumed by the Company was valued at its outstanding principal balance, which approximated fair value at August 31, 2018. The Company subsequently paid off the debt in full on September 4, 2018.

The property and equipment acquired primarily relates to land, buildings, equipment, and furniture and fixtures. The fair values of the property and equipment were primarily determined using the cost replacement method, which is based on replacement or reproduction costs of the assets.

The fair value of the Ocean Downs gaming rights was determined using the Greenfield method, which is an income approach methodology that calculates the present value of the overall business enterprise based on a projected cash flow stream. This method assumes that the gaming rights intangible asset provides the opportunity to develop a casino in a specified region, and that the present value of the projected cash flows is a result of the realization of advantages contained in these rights. Under this methodology, the acquirer is expected to absorb all start-up costs, as well as incur all expenses pertaining to the acquisition and/or the creation of all tangible and intangible assets. The estimated future revenue and operating expenses and start-up costs of Ocean Downs were the primary inputs in the valuation. The gaming rights intangible asset was assigned an indefinite useful life based on the Company's expected use of the asset and determination that no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of the gaming rights. The renewal of the gaming rights in Maryland is subject to various legal requirements. However, the Company's historical experience has not indicated, nor does the Company expect, any limitations regarding its ability to continue to renew its gaming rights in Maryland.

The trademark intangible asset was valued using the relief-from-royalty method of the income approach, which estimates the fair value of the intangible asset by discounting the fair value of the hypothetical royalty payments a market participant would be willing to pay to enjoy the benefits of the asset. The trademark was assigned an indefinite useful life based on the Company's intention to keep the Ocean Downs name for an indefinite period of time.

Goodwill of \$20.4 million was recognized due to the expected contribution of Ocean Downs to the Company's overall business strategy. The goodwill was assigned to the Gaming segment and is not deductible for tax purposes.

In connection with the Ocean Downs/Saratoga Transaction, the Company recorded a deferred tax liability and income tax expense of \$12.6 million. The deferred tax liability represents the excess of the financial reporting amounts of the net assets of

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Ocean Downs over their respective basis under U.S., state, and local tax law expected to be applied to taxable income in the periods such differences are expected to be realized.

After the closing of the Ocean Downs/Saratoga Transaction, for the period from September 1, 2018 through December 31, 2018, net revenue for Ocean Downs was \$25.9 million, and net income was not material.

The following unaudited pro forma consolidated financial information for the Company has been prepared assuming the Company's acquisition of the remaining 50% interest in Ocean Downs occurred as of January 1, 2017 and excludes the gain recognized from the Ocean Downs/Saratoga Transaction. The unaudited pro forma financial information is not necessarily indicative of either future results of operations or results of operations that might have been achieved had the acquisition been consummated as of January 1, 2017. The unaudited pro forma net income giving effect to the Ocean Downs/Saratoga Transaction was not materially different than our historical net income.

<i>(in millions)</i>	Years Ended December 31,	
	2018	2017
Net revenue	\$ 1,065.4	\$ 947.2

4. DISCONTINUED OPERATIONS

On November 29, 2017, the Company entered into a definitive Stock Purchase Agreement (the "Stock Purchase Agreement") to sell its mobile gaming subsidiary, Big Fish Games, Inc. ("Big Fish Games"), a Washington corporation, to Aristocrat Technologies, Inc. (the "Purchaser"), a Nevada corporation, an indirect, wholly owned subsidiary of Aristocrat Leisure Limited, an Australian corporation (the "Big Fish Transaction"). On January 9, 2018, pursuant to the Stock Purchase Agreement, the Company completed the Big Fish Transaction. The Purchaser paid an aggregate consideration of \$990.0 million in cash in connection with the Big Fish Transaction, subject to customary adjustments for working capital and indebtedness and certain other adjustments as set forth in the Stock Purchase Agreement.

The Big Fish Games segment and related Big Fish Transaction meet the criteria for held for sale and discontinued operation presentation. The consolidated statements of comprehensive income and the notes to consolidated financial statements reflect the Big Fish Games segment as discontinued operations for all periods presented. Unless otherwise specified, disclosures in these consolidated financial statements reflect continuing operations only. The consolidated statements of cash flows includes both continuing and discontinued operations.

The Company received cash proceeds of \$970.7 million which was net of \$5.2 million of working capital adjustments and \$14.1 million of transaction costs. The Company recognized a gain of \$219.5 million upon the sale recorded in income from discontinued operations in the accompanying consolidated statements of comprehensive income in 2018. The gain consisted of cash proceeds of \$970.7 million offset by the carrying value of Big Fish Games of \$751.2 million. The income tax provision on the gain was \$51.2 million, resulting in an after tax gain of \$168.3 million.

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The following table presents the financial results of Big Fish Games included in "Income from discontinued operations, net of tax" in the accompanying consolidated statements of comprehensive income:

<i>(in millions)</i>	Years Ended December 31,		
	2019	2018	2017
Net revenue	\$ —	\$ 13.2	\$ 466.0
Operating expenses	—	8.4	369.0
Selling, general and administrative expense	3.5	6.0	27.8
Research and development	—	0.9	39.6
Transaction expense, net	—	—	4.7
Total operating expense	3.5	15.3	441.1
Operating (loss) income	(3.5)	(2.1)	24.9
Other income (expense)			
Gain on sale of Big Fish Games	—	219.5	—
Other expense	—	0.1	(1.7)
Total other income (loss)	—	219.6	(1.7)
(Loss) income from discontinued operations before provision for income taxes	(3.5)	217.5	23.2
Income tax benefit (provision)	1.1	(47.3)	(5.1)
(Loss) income from discontinued operations, net of tax	\$ (2.4)	\$ 170.2	\$ 18.1

Stock-Based Compensation

As part of the Big Fish Transaction, the vesting dates for all outstanding unvested restricted stock awards, restricted stock unit awards, and performance share units awards (collectively the "Stock Awards") for certain Big Fish Games' employees were accelerated to vest on the closing date. Most of these Stock Awards would not have vested prior to the closing date of the Big Fish Transaction. Therefore, the related stock-based compensation expense previously recognized through the modification date was reduced to zero and a new fair value of the Stock Awards was established on the date of the announcement of the Big Fish Transaction. The expense was amortized during the period from the date of the announcement to the closing of the Big Fish Transaction. The incremental stock-based compensation expense recognized during 2017 due to the acceleration of vesting was \$3.4 million, which is included in income from discontinued operations, net of tax in the accompanying consolidated statements of comprehensive income.

Total stock-based compensation expense related to Big Fish Games, which includes the accelerated vesting of the Stock Awards and stock options associated with the Company's employee stock purchase plan, was \$3.4 million in 2018 and \$11.1 million in 2017.

Earnout Liabilities

As of December 31, 2017, we had \$34.2 million of deferred earnout consideration and \$28.4 million of deferred payments due to the founder of Big Fish Games, both of which were paid on January 3, 2018.

5. PROPERTY AND EQUIPMENT

Property and equipment, net is comprised of the following:

<i>(in millions)</i>	As of December 31,	
	2019	2018
Grandstands and buildings	\$ 625.2	\$ 532.8
Equipment	406.5	356.3
Tracks and other improvements	222.3	207.3
Land	162.4	140.5
Furniture and fixtures	79.2	73.3
Construction in progress	52.3	7.0
	1,547.9	1,317.2
Accumulated depreciation	(635.4)	(559.7)
Subtotal	912.5	757.5
Right-of-use assets	24.8	—
Total	\$ 937.3	\$ 757.5

Depreciation expense was \$81.4 million in 2019, \$57.6 million in 2018 and \$49.1 million in 2017 and is classified in operating expense in the accompanying consolidated statements of comprehensive income.

During the fourth quarter of 2017, the Company recorded a \$13.7 million non-cash impairment charge related to certain iGaming assets included in our Online Wagering segment. The impairment was due to a change in the Company's planned usage of these assets.

6. GOODWILL

In the first quarter of 2019, we realigned our segments as described in Note 1, Description of Business. This change resulted in the allocation of the previous Racing segment goodwill balance of \$51.7 million as follows: \$49.7 million to the Churchill Downs segment, \$1.0 million to the Gaming segment, and \$1.0 million to All Other, based on the relative fair value approach. The Company evaluated whether an interim goodwill impairment test should be performed as a result of our segment changes. Based on this evaluation, the Company determined this event did not indicate it was more likely than not that a goodwill impairment exists.

Goodwill, by segment, is comprised of the following:

<i>(in millions)</i>	Churchill Downs	Online Wagering	Gaming	All Other	Total
Balances as of December 31, 2017	\$ 49.7	\$ 148.2	\$ 118.7	\$ 1.0	\$ 317.6
Additions	—	—	20.4	—	20.4
Balances as of December 31, 2018	49.7	148.2	139.1	1.0	338.0
Additions	—	—	26.1	3.0	29.1
Balances as of December 31, 2019	\$ 49.7	\$ 148.2	\$ 165.2	\$ 4.0	\$ 367.1

In 2019, we established goodwill of \$26.1 million related to the Presque Isle Transaction, and \$3.0 million related to the Turfway Park Acquisition. In 2018, we established goodwill of \$20.4 million related to the Ocean Downs/Saratoga Transaction.

We performed our annual goodwill impairment analysis as of April 1, 2019 and no adjustment to the carrying value of goodwill was required. We elected to bypass the qualitative assessment and proceeded directly to perform step one fair value calculations on a quantitative basis for each reporting unit. We concluded that the fair values of our reporting units exceeded their carrying value and therefore step two of the assessment was not required.

7. OTHER INTANGIBLE ASSETS

Other intangible assets, net are comprised of the following:

<i>(in millions)</i>	December 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:						
Favorable contracts	\$ 11.0	\$ (8.1)	\$ 2.9	\$ 11.0	\$ (7.5)	\$ 3.5
Other	10.5	(3.3)	7.2	9.5	(2.3)	7.2
Customer relationships	4.7	(1.6)	3.1	6.4	(2.5)	3.9
Gaming licenses	5.1	(2.0)	3.1	5.2	(1.8)	3.4
	\$ 31.3	\$ (15.0)	\$ 16.3	\$ 32.1	\$ (14.1)	\$ 18.0
Indefinite-lived intangible assets:						
Trademarks			50.2			29.5
Gaming rights			303.2			216.4
Other			0.1			0.1
Total			\$ 369.8			\$ 264.0

In 2019, we established indefinite-lived intangible assets of \$56.0 million for gaming rights and \$15.2 million for trademarks related to the Presque Isle Transaction. We also acquired indefinite-lived intangible assets of \$8.0 million for online gaming rights in Pennsylvania related to our Online Wagering operations, \$10.0 million for retail sports betting gaming rights at Presque Isle and online sports betting gaming rights in Pennsylvania, as well as \$3.0 million for other gaming rights at Presque Isle. We also established indefinite-lived intangible assets of \$5.5 million for trademarks and \$9.8 million for gaming rights related to the Turfway Park acquisition.

In 2018, we established indefinite-lived intangible assets of \$87.0 million for gaming rights and \$8.3 million for trademarks related to the Ocean Downs/Saratoga Transaction. We also established definite-lived intangible assets of \$2.3 million relating to the opening of Derby City Gaming and \$0.1 million relating to the Ocean Downs/Saratoga Transaction for other intangibles.

Amortization expense for definite-lived intangible assets was \$15.0 million in 2019, \$6.0 million in 2018, and \$6.8 million in 2017 and is classified in operating expense in the accompanying consolidated statements of comprehensive income. As described further in Note 3, Acquisitions, we accelerated the amortization for the assignment of the Turfway Park Acquisition purchase and sale agreement rights of \$10.0 million in the fourth quarter of 2019, which is included in All Other in the accompanying consolidated statements of comprehensive income. We submitted payments of \$2.3 million in 2019 and 2018 for annual license fees for Calder, which are being amortized to expense over the annual license period.

Indefinite-lived intangible assets consist primarily of trademarks and state gaming rights in Maine, Maryland, Mississippi, Louisiana, Pennsylvania and Kentucky.

We performed our annual indefinite-lived intangible assets impairment analysis as of April 1, 2019, which included an assessment of qualitative and quantitative factors to determine whether it is more likely than not that the fair values of the indefinite-lived intangible assets are less than the carrying amount. We concluded that the fair values of our indefinite-lived intangible assets exceeded their carrying value, and therefore step two of the assessment was not required.

During 2017, the Company recorded a \$4.7 million non-cash impairment charge related to our Bluff operations (\$4.5 million for a trademark and \$0.2 million related to customer relationships), which is included in our Online Wagering segment, and a \$3.3 million non-cash impairment charge related to our Illinois Horseracing Equity Trust, which is included in All Other in the accompanying consolidated statements of comprehensive income. These impairments were due to changes in the business climate in 2017 that resulted in projected future cash flows being less than carrying value.

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Future estimated aggregate amortization expense on existing definite-lived intangible assets for each of the next five fiscal years is as follows (in millions):

Years Ended December 31,	Estimated Amortization Expense
2020	\$ 5.2
2021	2.2
2022	2.2
2023	1.7
2024	1.1

Future estimated amortization expense does not include additional payments of \$2.3 million in 2020 and in each year thereafter for the ongoing amortization of future expected annual Calder license fees not yet incurred or paid.

8. INCOME TAXES

Components of the provision for income taxes are as follows:

<i>(in millions)</i>	Years Ended December 31,		
	2019	2018	2017
Current provision:			
Federal	\$ 19.2	\$ 10.1	\$ 29.5
State and local	6.0	3.8	3.0
	25.2	13.9	32.5
Deferred provision (benefit):			
Federal	16.1	35.0	(53.0)
State and local	15.5	2.5	0.8
Foreign	—	(0.1)	(0.2)
	31.6	37.4	(52.4)
	\$ 56.8	\$ 51.3	\$ (19.9)

Income from continuing operations before provision for income taxes were as follows:

<i>(in millions)</i>	Years Ended December 31,		
	2019	2018	2017
Domestic	\$ 196.4	\$ 234.2	\$ 102.2
Foreign	—	(0.3)	0.3
	\$ 196.4	\$ 233.9	\$ 102.5

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Our income tax expense is different from the amount computed by applying the federal statutory income tax rate to income from continuing operations before taxes as follows:

<i>(in millions)</i>	Years Ended December 31,		
	2019	2018	2017
Federal statutory tax on earnings before income taxes	\$ 41.2	\$ 49.1	\$ 35.9
State income taxes, net of federal income tax benefit	8.0	5.4	2.5
Non-deductible officer's compensation	5.5	2.6	4.7
Re-measurement of deferred taxes	8.3	—	(57.7)
Windfall deduction from equity compensation	(5.2)	(4.7)	(5.2)
Other	(1.0)	(1.1)	(0.1)
	\$ 56.8	\$ 51.3	\$ (19.9)

During 2019, the Company recognized \$8.3 million of income tax expense from the re-measurement of our net deferred tax liabilities based on an increase in income attributable to states with higher tax rates compared to the prior period.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act significantly revised the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, imposing a one-time tax on accumulated earnings of foreign subsidiaries as of 2017, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. The Tax Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property.

In 2017, the Company recognized \$56.9 million of future tax benefits from the re-measurement of its deferred tax assets and liabilities at December 22, 2017, using the maximum U.S. federal tax rate of 21%, and \$0.8 million of tax benefits in relation to the mandatory deemed repatriation of its foreign earnings and profits pursuant to the Tax Act in combination with the reversal of deferred tax liabilities that had been maintained on foreign earnings. In 2018 and 2019, the Company's federal income tax expense was based on the new 21% corporate tax rate.

In accordance with Staff Accounting Bulletin No. 118 ("SAB 118"), the Company recorded provisional tax expense of \$5.6 million in 2017 related to non-deductible officer's compensation and the tax consequences of mandatory deemed repatriation required by the Tax Act. The Company also recorded a provisional tax benefit of \$19.7 million for the accelerated cost recovery allowance granted by the Tax Act, effective September 27, 2017. In the fourth quarter of 2018, the Company finalized its accounting for these estimates and recorded immaterial adjustments as of December 31, 2018, including any subsequent impact to the re-measurement of deferred taxes at a reduced tax rate of 21%.

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Components of our deferred tax assets and liabilities were as follows:

<i>(in millions)</i>	As of December 31,	
	2019	2018
Deferred tax assets:		
Lease liabilities	\$ 6.8	\$ —
Deferred compensation plans	5.9	5.8
Deferred income	4.8	5.6
Net operating losses and credit carryforward	3.4	3.7
Deferred liabilities	2.7	2.2
Allowance for uncollectible receivables	1.0	0.9
Deferred tax assets	24.6	18.2
Valuation allowance	(0.2)	(0.2)
Net deferred tax asset	24.4	18.0
Deferred tax liabilities:		
Equity investments in excess of tax basis	114.8	6.9
Intangible assets in excess of tax basis	60.2	49.3
Property and equipment in excess of tax basis	53.4	38.7
Right-of-use assets	6.8	—
Other	2.0	1.3
Deferred tax liabilities	237.2	96.2
Net deferred tax liability	\$ (212.8)	\$ (78.2)

As of December 31, 2019, we had federal net operating losses of \$3.2 million which were acquired in conjunction with the 2010 acquisition of Youbet.com. The utilization of these losses, which expire in 2025 and 2026, is limited on an annual basis pursuant to Internal Revenue Code § 382. We believe that we will be able to fully utilize all of these losses. We also have state net operating losses valued at \$0.7 million. We have recorded a valuation allowance of \$0.2 million against the state net operating losses due to the fact that it is unlikely that we will generate income in certain states which is necessary to utilize the assets.

The Internal Revenue Service has completed audits through 2012. Tax years 2016 and after are open to examination. State and local tax years open for examination vary by jurisdiction.

As of December 31, 2019, we had approximately \$1.8 million of total gross unrecognized tax benefits, excluding interest of \$0.1 million. If the total gross unrecognized tax benefits were recognized, there would be a \$1.8 million effect to the annual effective tax rate. We anticipate a decrease in our unrecognized tax positions of approximately \$0.6 million during the next twelve months primarily due to the expiration of statutes of limitation.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

<i>(in millions)</i>	2019	2018	2017
Balance as of January 1	\$ 2.8	\$ 2.9	\$ 2.3
Additions for tax positions related to the current year	0.1	0.1	0.5
Additions for tax positions of prior years	—	0.1	0.3
Reductions for tax positions of prior years	(1.1)	(0.3)	(0.2)
Balance as of December 31	\$ 1.8	\$ 2.8	\$ 2.9

9. SHAREHOLDERS' EQUITY

Stock Repurchase Program

On April 25, 2017, the Board of Directors of the Company approved a new common stock repurchase program of up to \$250.0 million. The program replaced the prior \$150.0 million program that was authorized in February 2016 and had unused authorization of \$114.6 million. The authorized amount included and was not in addition to any unspent amount remaining under the prior authorization in February 2016. Repurchases could be made at management's discretion from time to time on the open market (either with or without a 10b5-1 plan) or through privately negotiated transactions. Share repurchases resulted in the shares being retired, and the cost of the shares acquired were treated as a reduction from common stock and retained earnings. The repurchase program had no time limit and could be suspended or discontinued at any time.

On June 9, 2017, we entered into an agreement with a related party, The Duchossois Group ("TDG"), to repurchase 3,000,000 shares of the Company's common stock for \$52.93 per share in a privately negotiated transaction. The aggregate purchase price was \$158.8 million.

For the year ended December 31, 2017, including the repurchase of 3,000,000 shares from TDG, we repurchased 3,231,087 shares of our common stock under the April 2017 stock repurchase program at a total cost of \$171.7 million. We had approximately \$78.3 million of repurchase authority remaining under this program at December 31, 2017.

On November 29, 2017, the Board of Directors of the Company authorized a \$500.0 million share repurchase program in a "modified Dutch auction" tender offer (the "Tender Offer") utilizing a portion of the proceeds from the Big Fish Transaction. The Company completed the Tender Offer on February 12, 2018, and repurchased 5,660,376 shares of the Company's common stock at a purchase price of \$88.33 per share with an aggregate cost of \$500.0 million, excluding fees and expenses related to the Tender Offer.

On October 30, 2018, the Board of Directors of the Company approved a new common stock repurchase program of up to \$300.0 million. The new program replaced the prior \$250.0 million program that was authorized in April 2017 and had unused authorization of \$78.3 million. The new authorized amount includes and is not in addition to any unspent amount remaining under the prior authorization. Repurchases may be made at management's discretion from time to time on the open market (either with or without a 10b5-1 plan) or through privately negotiated transactions. The repurchase program has no time limit and may be suspended or discontinued at any time.

For the year ended December 31, 2019, we repurchased 864,233 shares of our common stock under the October 2018 stock repurchase program at a total cost of \$93.0 million. We had \$175.0 million of repurchase authority remaining under this program at December 31, 2019. As of December 31, 2019, we accrued \$0.5 million for the future cash settlement of executed repurchases of our common stock compared to \$2.5 million as of December 31, 2018.

For the year ended December 31, 2018, excluding the shares purchased under the Tender Offer, we repurchased 372,282 shares of our common stock under the October 2018 stock repurchase program at a total cost of \$32.0 million.

Stock Split

On October 30, 2018, the Company's Board of Directors approved the Stock Split and an amendment to the Company's Articles of Incorporation to increase the number of shares of common stock the Company is authorized to issue from 50,000,000 shares, no par value, to 150,000,000 shares, no par value. This amendment to the Company's Articles of Incorporation became effective on January 25, 2019 and our common stock began trading at the split-adjusted price on January 28, 2019. All share and per-share amounts in the Company's consolidated financial statements and related notes have been retroactively adjusted to reflect the effects of the Stock Split.

10. STOCK-BASED COMPENSATION PLANS

Our total compensation expense, which includes expense related to restricted stock awards, restricted stock unit awards, performance share unit awards, and stock options associated with our employee stock purchase plan, was \$23.8 million in 2019, \$17.7 million in 2018, and \$16.0 million in 2017. The income tax benefit related to stock-based employee compensation expense was \$2.1 million in 2019, \$2.7 million in 2018, and \$5.5 million in 2017. Our stock-based employee compensation plans are described below.

2016 Omnibus Stock Incentive Plan

On February 24, 2016, we replaced our previous stock compensation program, the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan (the "2007 Incentive Plan") with a new program, the Churchill Downs Incorporated 2016

Omnibus Stock Incentive Plan (the "2016 Incentive Plan"). The 2016 Incentive Plan is intended to advance our long-term success by encouraging stock ownership among key employees and the Board of Directors. Awards may be in the form of stock options, stock appreciation rights, restricted stock ("RSA"), restricted stock units ("RSU"), performance share units ("PSU"), performance units, or performance cash. The 2016 Incentive Plan has a minimum vesting period of one year for awards granted.

Restricted Stock, Restricted Stock Units, and Performance Share Units

The 2007 Incentive Plan and the 2016 Incentive Plan (collectively "the 2007 and 2016 Plans") permit the award of RSAs, RSUs, or PSUs to directors and key employees responsible for the management, growth and protection of our business. The fair value of RSAs and RSUs that vest solely based on continued service under the 2007 and 2016 Plans is determined by the product of the number of shares granted and the grant date market price of our common stock.

RSAs and RSUs granted to employees under the 2007 and 2016 Plans generally vest either in full upon three years from the date of grant or on a pro rata basis over a three-year term. RSAs are legally issued common stock at the time of grant, with certain restrictions placed on them. RSUs granted to employees are converted into shares of our common stock at vesting. The RSUs granted to directors under the 2007 and 2016 Plans generally vest in full upon one year from the date of grant. RSUs granted to directors are converted into shares of our common stock at the time of the director's retirement.

In 2017, 2018, and 2019, the Company granted three-year performance and total shareholder return ("TSR") PSU awards (the "PSU Awards") to certain named executive officers ("NEOs"). The two performance criteria for the PSU Awards are: (1) a cumulative Adjusted EBITDA target that was set at the beginning of the plan performance period for the three year period; and (2) a cash flow metric that is the aggregate of the cash flow targets for the three individual years that is set annually at the beginning of each year. The cash flow metric is defined as cash flow from operating activities, excluding the change in restricted cash, plus distributions of capital from equity investments less capital maintenance expenditures. The Compensation Committee of the Board of Directors (the "Compensation Committee") can make adjustments as it may deem appropriate to these metrics. Measurement against these criteria will be determined against a payout curve which provides up to 200% of performance share units based on the original award.

The TSR criteria for the PSU Awards is related to the Company's TSR relative to the TSR of companies in the Russell 2000 index during the performance period. The PSU Awards may be adjusted based on the Company's relative TSR performance as follows:

1. The PSU Awards will increase by 25% if the Company's TSR is in the top quartile;
2. The PSU Awards will decrease by 25% if the Company's TSR is in the bottom quartile; and
3. The PSU Awards will not change if the Company's TSR is in the middle two quartiles.

The maximum number of PSU Awards, including the impact of the TSR performance, that can be earned for a performance period is 250% of the original award.

On February 12, 2020, the Compensation Committee offered, and the NEOs accepted, to settle the 2017 PSU Awards in cash.

In October 2018, the Company granted RSU awards (the "2018 RSU Awards") and TSR PSU awards (the "2018 TSR PSU Awards") to certain NEOs. The 2018 RSU Awards contain a seven year service period and vest on a pro rata basis over a four year period beginning on the fourth anniversary of the award. The total number of 2018 TSR PSU Awards earned will vary between 0% to 200% of the award amount depending on the Company's TSR relative to the TSR of companies in the Russell 2000 index over a three-year performance period. At the end of the three year performance period, the 2018 TSR PSU Awards will vest on a pro rata basis over the remaining four year service period beginning on the fourth anniversary of the award.

The total compensation cost recognized for PSU Awards and 2018 TSR PSU Awards is determined using the Monte Carlo valuation methodology, which factors in the value of the TSR when determining the grant date fair value of the award. Compensation cost for the PSU Awards is recognized during the three year performance and service period based on the probable achievement of the two performance criteria. Compensation cost for the TSR PSU Awards is recognized during the seven year service period. All PSUs awards are converted into shares of our common stock at the time the award value is finalized.

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A summary of the 2019 RSAs, RSUs, and PSUs granted to certain NEOs, employees, and directors is presented below (shares/units in thousands):

Grant Year	Award Type	Number of Shares/Units Awarded ⁽¹⁾	Vesting Terms
2019	RSA	65	Vest equally over three service periods ending in 2020, 2021 and 2022
2019	RSU	55	Vest equally over three service periods ending in 2019, 2020, and 2021
2019	RSU	10	One year service period ending in 2020
2019	PSU	58	Three year performance and service period ending in 2021

(1) PSUs presented are based on the target number of units for the original PSU grant.

Activity for our RSAs, RSUs, and PSUs is presented below (shares/units in thousands):

	PSUs		RSAs and RSUs		Total	
	Number of Shares/Units	Weighted Average Grant Date Fair Value	Number of Shares/Units	Weighted Average Grant Date Fair Value	Number of Shares/Units	Weighted Average Grant Date Fair Value
<i>(in thousands, except grant date values)</i>						
Balance as of December 31, 2016	110	\$ 48.86	480	\$ 36.90	590	\$ 37.23
Granted	65	\$ 55.75	173	\$ 52.31	238	\$ 53.25
Performance adjustment ⁽¹⁾	45	\$ 51.00	—	\$ —	45	\$ 51.00
Vested	(96)	\$ 51.00	(334)	\$ 36.79	(430)	\$ 39.98
Canceled/forfeited	—	\$ —	(3)	\$ 41.92	(3)	\$ 41.92
Balance as of December 31, 2017	124	\$ 51.59	316	\$ 45.51	440	\$ 47.23
Granted	256	\$ 68.32	193	\$ 84.78	449	\$ 75.39
Performance adjustment ⁽¹⁾	70	\$ 47.01	—	\$ —	70	\$ 47.01
Vested	(129)	\$ 47.01	(217)	\$ 46.35	(346)	\$ 46.60
Canceled/forfeited	—	\$ —	(17)	\$ 54.49	(17)	\$ 54.49
Balance as of December 31, 2018	321	\$ 65.77	275	\$ 72.03	596	\$ 68.66
Granted	58	\$ 92.90	130	\$ 94.42	188	\$ 93.96
Performance adjustment ⁽¹⁾	87	\$ 55.75	—	\$ —	87	\$ 55.75
Vested	(152)	\$ 55.75	(135)	\$ 68.15	(287)	\$ 61.57
Canceled/forfeited	—	\$ —	(5)	\$ 77.59	(5)	\$ 77.59
Balance as of December 31, 2019	314	\$ 72.84	265	\$ 85.07	579	\$ 78.45

(1) Adjustment to number of target units awarded for PSUs based on achievement of performance and TSR goals.

The fair value of shares and units vested was \$36.9 million in 2019, \$32.4 million in 2018, and \$29.6 million in 2017.

A summary of total unrecognized stock-based compensation expense related to RSAs, RSUs, and PSUs (based on current performance estimates), at December 31, 2019 is presented below:

<i>(in millions, except years)</i>	December 31, 2019	Weighted Average Remaining Vesting Period (Years)
Unrecognized expense:		
RSA	\$ 3.3	1.47
RSU	7.8	3.38
PSU	16.7	3.36
Total	\$ 27.8	3.14

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan (the "ESP Plan"), we are authorized to sell, pursuant to short-term stock options, shares of our common stock to our full-time and qualifying part-time employees at a discount from our common stock's fair market value. The ESP Plan operates on the basis of recurring, consecutive one-year periods. Each period commences on August 1 and ends on the following July 31. Compensation expense related to the ESP Plan was not material for any year included in our accompanying consolidated statements of comprehensive income.

11. TOTAL DEBT

The following table presents our total debt outstanding:

	As of December 31, 2019		
<i>(in millions)</i>	Outstanding Principal	Issuance Costs and Fees	Long-Term Debt, Net
Term Loan B due 2024	\$ 392.0	\$ 4.0	\$ 388.0
2027 Senior Notes	600.0	8.0	592.0
2028 Senior Notes	500.0	6.1	493.9
Total debt	1,492.0	18.1	1,473.9
Current maturities of long-term debt	4.0	—	4.0
Total debt, net of current maturities	\$ 1,488.0	\$ 18.1	\$ 1,469.9

	As of December 31, 2018		
<i>(in millions)</i>	Outstanding Principal	Issuance Costs and Fees	Long-Term Debt, Net
Term Loan B due 2024	\$ 396.0	\$ 4.7	\$ 391.3
2028 Senior Notes	500.0	7.0	493.0
Total debt	896.0	11.7	884.3
Current maturities of long-term debt	4.0	—	4.0
Total debt, net of current maturities	\$ 892.0	\$ 11.7	\$ 880.3

2017 Credit Agreement

On December 27, 2017, we entered into a senior secured credit agreement (the "2017 Credit Agreement") with a syndicate of lenders. The 2017 Credit Agreement replaced our 2014 senior secured credit agreement (the "2014 Credit Agreement"). The 2017 Credit Agreement provides for a \$700.0 million senior secured revolving credit facility due 2022 (the "Revolver") and a \$400.0 million senior secured term loan B due 2024 (the "Term Loan B"). Included in the maximum borrowing of \$700.0 million under the Revolver is a letter of credit sub facility not to exceed \$50.0 million and a swing line commitment up to a maximum principal amount of \$50.0 million. We had \$694.4 million of available borrowing capacity, after consideration of \$5.6 million in outstanding letters of credit, under the Revolver as of December 31, 2019. The 2017 Credit Agreement is collateralized by substantially all of the wholly-owned assets of the Company.

The Term Loan B requires quarterly payments of 0.25% of the original \$400.0 million balance, or \$1.0 million per quarter. The Term Loan B may be subject to additional mandatory prepayment from excess cash flow on an annual basis per the provisions of the 2017 Credit Agreement. The Company is required to pay a commitment fee on the unused portion of the Revolver determined by a pricing grid based on the consolidated total net secured leverage ratio of the Company. For the period ended December 31, 2019, the Company's commitment fee rate was 0.30%.

The Revolver bears interest at LIBOR plus a spread as determined by the Company's net leverage ratio, which was LIBOR plus 150 points at December 31, 2019. The Term Loan B bears interest at LIBOR plus 200 basis points.

The 2017 Credit Agreement contains certain customary affirmative and negative covenants, which include limitations on liens, investments, indebtedness, dispositions, mergers and acquisitions, the making of restricted payments, changes in the nature of business, changes in fiscal year, and transactions with affiliates. The 2017 Credit Agreement also contains financial covenants

providing for the maintenance of a maximum consolidated secured net leverage ratio (4.0 to 1.0 or 4.5 to 1.0 for the year following any permitted acquisition greater than \$100.0 million) and the maintenance of a minimum consolidated interest coverage ratio of 2.5 to 1.0. The Company was in compliance with all applicable covenants in the 2017 Credit Agreement at December 31, 2019.

The Company utilized borrowings from the Revolver to fund a portion of the purchase price related to the closing of the Presque Isle Transaction on January 11, 2019.

As a result of the Company's 2017 Credit Agreement, \$5.1 million of debt issuance costs were capitalized associated with the Term Loan B and are amortized as interest expense over the shorter of the respective debt period or 7 years. The Company also capitalized \$1.6 million of debt issuance costs associated with the Revolver which are amortized as interest expense over the shorter of the respective debt period or 5 years.

2027 Senior Notes

On March 25, 2019, we completed an offering of \$600.0 million in aggregate principal amount of 5.50% Senior Unsecured Notes that mature on April 1, 2027 (the "2027 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The 2027 Senior Notes were issued at par, with interest payable on April 1st and October 1st of each year, commencing on October 1, 2019. The Company used the net proceeds from the offering to repay our outstanding balance on our 2017 Senior Secured credit agreement (the "2017 Credit Agreement"). In connection with the offering, we capitalized \$8.9 million of debt issuance costs which are being amortized as interest expense over the term of the 2027 Senior Notes.

The 2027 Senior Notes were issued pursuant to an indenture, dated March 25, 2019 (the "2027 Indenture"), among the Company, certain subsidiaries of the Company as guarantors (the "2027 Guarantors"), and U.S. Bank National Association, as trustee. The Company may redeem some or all of the 2027 Senior Notes at any time prior to April 1, 2022, at a price equal to 100% of the principal amount of the 2027 Senior Notes redeemed plus an applicable make-whole premium. On or after such date, the Company may redeem some or all of the 2027 Senior Notes at redemption prices set forth in the 2027 Indenture. At any time prior to April 1, 2022, the Company may redeem up to 40% of the aggregate principal amount of the 2027 Senior Notes at a redemption price equal to 105.5% of the principal amount thereof with the net cash proceeds of one or more equity offerings provided that certain conditions are met. The terms of the 2027 Indenture, among other things, limit the ability of the Company to: (i) incur additional debt and issue preferred stock; (ii) pay dividends or make other restricted payments; (iii) make certain investments; (iv) create liens; (v) allow restrictions on the ability of certain of our subsidiaries to pay dividends or make other payments; (vi) sell assets; (vii) merge or consolidate with other entities; and (viii) enter into transactions with affiliates.

In connection with the issuance of the 2027 Senior Notes, the Company and the 2027 Guarantors entered into a Registration Rights Agreement to register any 2027 Senior Notes under the Securities Act for resale that are not freely tradable 366 days from March 25, 2019.

2028 Senior Notes

On December 27, 2017, we completed an offering of \$500.0 million in aggregate principal amount of 4.75% Senior Unsecured Notes that mature on January 15, 2028 (the "2028 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act, and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The 2028 Senior Notes were issued at par, with interest payable on January 15th and July 15th of each year, commencing on July 15, 2018. The Company used the net proceeds from the offering to repay a portion of our \$600.0 million 5.375% Senior Unsecured Notes (the "2021 Senior Notes"). In connection with the offering, we capitalized \$7.7 million of debt issuance costs which are being amortized as interest expense over the term of the 2028 Senior Notes.

The 2028 Senior Notes were issued pursuant to an indenture, dated December 27, 2017 (the "2028 Indenture"), among the Company, certain subsidiaries of the Company as guarantors (the "2028 Guarantors"), and U.S. Bank National Association, as trustee. The Company may redeem some or all of the 2028 Senior Notes at any time prior to January 15, 2023, at a price equal to 100% of the principal amount of the 2028 Senior Notes redeemed plus an applicable make-whole premium. On or after such date, the Company may redeem some or all of the 2028 Senior Notes at redemption prices set forth in the 2028 Indenture. At any time prior to January 15, 2021, the Company may redeem up to 40% of the aggregate principal amount of the 2028 Senior Notes at a redemption price equal to 104.75% of the principal amount thereof with the net cash proceeds of one or more equity offerings provided that certain conditions are met. The terms of the 2028 Indenture, among other things, limit the ability of the Company to: (i) incur additional debt and issue preferred stock; (ii) pay dividends or make other restricted payments; (iii) make certain investments; (iv) create liens; (v) allow restrictions on the ability of certain of our subsidiaries to pay dividends or make other payments; (vi) sell assets; (vii) merge or consolidate with other entities; and (viii) enter into transactions with affiliates.

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In connection with the issuance of the 2028 Senior Notes, the Company and the 2028 Guarantors entered into a Registration Rights Agreement to register any 2028 Senior Notes under the Securities Act for resale that are not freely tradable 366 days from December 27, 2017.

2021 Senior Notes

The 2021 Senior Notes were comprised of 5.375% Senior Unsecured Notes that were scheduled to mature on December 15, 2021, which were issued in an initial offering of \$300.0 million in aggregate principal amount at par, completed on December 16, 2013, and an additional offering of \$300.0 million in aggregate principal amount at 101% completed on December 16, 2015. Interest on the 2021 Senior Notes was payable on June 15th and December 15th of each year.

The Company used the proceeds from the 2017 Credit Agreement and 2028 Senior Notes to redeem the 2021 Senior Notes and to pay related fees and expenses. The 2021 Senior Notes were redeemed at a price equal to the principal amount thereof and the applicable "make-whole" premium, \$16.1 million, which is included in loss on extinguishment of debt in the accompanying consolidated statements of comprehensive income in 2017. The Company accounted for the redemption of the 2021 Senior Notes as an extinguishment and wrote off \$6.3 million of unamortized debt issuance costs and incurred a benefit of \$2.0 million related to the unamortized bond premium, both of which are included in loss on extinguishment of debt in the accompanying consolidated statements of comprehensive income.

The Company also expensed approximately \$0.4 million of debt issuance costs relating to our 2014 Credit Agreement in the fourth quarter of 2017, which is included in loss on extinguishment of debt in the accompanying consolidated statements of comprehensive income.

Future aggregate maturities of total debt are as follows (in millions):

Years Ended December 31,		
2020	\$	4.0
2021		4.0
2022		4.0
2023		4.0
2024		376.0
Thereafter		1,100.0
Total	\$	<u>1,492.0</u>

12. REVENUE FROM CONTRACTS WITH CUSTOMERS

Performance Obligations

As of December 31, 2019, our Churchill Downs segment had remaining performance obligations on contracts with a duration greater than one year relating to television rights, sponsorships, personal seat licenses, and admissions, with an aggregate transaction price of \$166.8 million. The revenue we expect to recognize on these remaining performance obligations is \$47.0 million in 2020, \$36.9 million in 2021, \$31.7 million in 2022, and the remainder thereafter.

As of December 31, 2019, our remaining performance obligations on contracts with a duration greater than one year in segments other than Churchill Downs were not material.

Contract Assets and Contract Liabilities

As of December 31, 2019 and 2018, contract assets were not material.

As of December 31, 2019 and 2018, contract liabilities were \$63.1 million and \$69.9 million, respectively, which are included in current deferred revenue, non-current deferred revenue, and accrued expense and other current liabilities in the accompanying consolidated balance sheets. Contract liabilities primarily relate to our Churchill Downs segment and the decrease was primarily due to revenue recognized for fulfilled performance obligations. We recognized \$51.2 million of revenue during the year ended December 31, 2019 that was included in the contract liabilities balance at December 31, 2018. We recognized \$53.7 million of revenue during the year ended December 31, 2018 that was included in the contract liabilities balance at January 1, 2018.

Disaggregation of Revenue

In Note 20, Segment Information, the Company has included its disaggregated revenue disclosures as follows:

- For the Churchill Downs segment, revenue is disaggregated between Churchill Downs Racetrack and Derby City Gaming given that Churchill Downs Racetrack's revenues primarily revolve around live racing events while Derby City Gaming's revenues primarily revolve around historical racing events. Within the Churchill Downs segment, revenue is further disaggregated between live and simulcast racing, historical racing, racing event-related services, and other services.
- For the Online Wagering segment, revenue is disaggregated between the TwinSpires business and online sports betting and iGaming business given that TwinSpires' revenue is primarily related to online pari-mutuel wagering on live race events while online sports betting and iGaming revenue relates to casino gaming service offerings. Online sports betting and iGaming service offerings are currently nominal. Within the Online Wagering segment, revenue is further disaggregated between live and simulcast racing, gaming, and other services.
- For the Gaming segment, revenue is disaggregated by location given the geographic economic factors that affect the revenue of Gaming service offerings. Within the Gaming segment, revenue is further disaggregated between live and simulcast racing, racing event-related services, gaming, and other services.

We believe that these disclosures depict how the amount, nature, timing, and uncertainty of cash flows are affected by economic factors.

13. OTHER BALANCE SHEET ITEMS

Accounts receivable

Accounts receivable is comprised of the following:

<i>(in millions)</i>	As of December 31,	
	2019	2018
Trade receivables	\$ 12.3	\$ 7.7
Simulcast and online wagering receivables	20.9	19.9
Other receivables	8.5	5.2
	41.7	32.8
Allowance for doubtful accounts	(4.4)	(4.0)
Total	\$ 37.3	\$ 28.8

We recognized bad debt expense of \$2.1 million in 2019, \$1.7 million in 2018 and \$1.2 million in 2017.

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following:

<i>(in millions)</i>	As of December 31,	
	2019	2018
Accrued salaries and related benefits	\$ 29.2	\$ 24.1
Account wagering deposits liability	28.9	29.6
Purses payable	19.9	15.8
Accrued interest	19.7	11.4
Other	75.7	54.3
Total	\$ 173.4	\$ 135.2

14. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

The Company owns a 50% interest in MVG, a 61.3% interest in Rivers Des Plaines (as described further below), and two other immaterial joint ventures.

Miami Valley Gaming

Delaware North Companies Gaming & Entertainment Inc. ("DNC") owns the remaining 50% interest in MVG. Since both we and DNC have participating rights over MVG, and both must consent to MVG's operating, investing and financing decisions, we account for MVG using the equity method.

Rivers Des Plaines

On March 5, 2019, the Company completed the Sale Transaction to acquire approximately 42% of Midwest Gaming, the parent company of Rivers Des Plaines, for cash consideration of approximately \$406.6 million and \$3.5 million of certain transaction costs and working capital adjustments. Following the closing of the Sale Transaction, the parties completed the Recapitalization pursuant to which Midwest Gaming used approximately \$300.0 million in proceeds from amended and extended credit facilities to redeem, on a pro rata basis, additional Midwest Gaming units held by High Plains and Casino Investors. As a result of the Recapitalization, the Company's ownership of Midwest Gaming increased to 61.3%. High Plains retained ownership of 36.0% of Midwest Gaming and Casino Investors retained ownership of 2.7% of Midwest Gaming.

We also recognized a \$103.2 million deferred tax liability and a corresponding increase in our investment in unconsolidated affiliates related to an entity we acquired in conjunction with our acquisition of the Clairvest ownership stake in Midwest Gaming.

A new limited liability company agreement was entered into by the members of Midwest Gaming as a result of the change in ownership structure. Under the new limited liability company agreement, both the Company and High Plains have participating rights over Midwest Gaming, and both must consent to Midwest Gaming's operating, investing and financing decisions. As a result, we account for Midwest Gaming using the equity method.

The Company's investment in Midwest Gaming is presented at our initial cost of investment plus its accumulated proportional share of income or loss, including depreciation/accretion of the difference in the historical basis of the Company's contribution, less any distributions it has received. Following the Sale Transaction and Recapitalization, the carrying value of the Company's investment in Midwest Gaming was \$835.0 million higher than the Company's underlying equity in the net assets of Midwest Gaming. This equity method basis difference was comprised of \$853.7 million related to goodwill and indefinite-lived intangible assets, \$(13.7) million related to non-depreciable land, \$(9.5) million related to buildings that will be accreted into income over a weighted average useful life of 35.3 years, and \$4.5 million related to personal property that will be depreciated over a weighted average useful life of 3.7 years. As of December 31, 2019, the net aggregate basis difference between the Company's investment in Midwest Gaming and the amounts of the underlying equity in net assets was \$834.2 million.

Ocean Downs

On August 31, 2018, the Company closed the acquisition of the remaining 50% ownership of Ocean Downs owned by SCH in exchange for liquidating the Company's 25% equity interest in SCH, which is the parent company of Saratoga New York and Saratoga Colorado. Upon the closing of the Ocean Downs/Saratoga Transaction, the Company owns 100% of Ocean Downs and has no equity interest or management involvement in Saratoga New York or Saratoga Colorado. Prior to August 31, 2018, Ocean Downs was accounted for under the equity method.

Summarized Financial Results for our Unconsolidated Affiliates

The financial results for our unconsolidated affiliates are summarized below. The summarized income statement information for 2019 and summarized balance sheet information as of December 31, 2019 includes the following equity investments: MVG, Rivers Des Plaines from the transaction date of March 5, 2019, and two other immaterial joint venture. The summarized income statement information for 2018 includes the following equity investments: MVG, Saratoga New York, Saratoga Colorado, Ocean Downs, and two other immaterial joint ventures. As noted above, on August 31, 2018, the Company completed the Ocean Downs/Saratoga Transaction. As such, the 2018 summarized income statement information includes the results of Ocean Downs, Saratoga New York, and Saratoga Colorado through August 31, 2018. Summarized balance sheet information as of December 31, 2018 included MVG and two other immaterial joint ventures. The summarized income

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statement for 2017 includes the following equity investments: MVG, Saratoga New York, Saratoga Colorado, Ocean Downs, and two other immaterial joint ventures.

<i>(in millions)</i>	December 31,	
	2019	2018
Assets		
Current assets	\$ 64.0	\$ 24.0
Property and equipment, net	256.1	95.7
Other assets, net	240.1	106.7
Total assets	\$ 560.2	\$ 226.4
Liabilities and Members' (Deficit) Equity		
Current liabilities	\$ 73.3	\$ 21.2
Long-term debt	745.0	—
Other liabilities	20.6	—
Members' (deficit) equity	(278.7)	205.2
Total liabilities and members' (deficit) equity	\$ 560.2	\$ 226.4

<i>(in millions)</i>	Years Ended December 31,		
	2019	2018	2017
Net revenue	\$ 585.5	\$ 367.2	\$ 443.7
Operating and SG&A expense	411.4	271.9	345.3
Depreciation and amortization	13.0	22.2	25.9
Operating income	161.1	73.1	72.5
Interest and other expense, net	(67.0)	(6.3)	(8.5)
Net income	\$ 94.1	\$ 66.8	\$ 64.0

15. LEASES

Our operating leases with terms greater than one year are primarily related to buildings and land. Our operating leases with terms less than one year are primarily related to equipment. Most of our building and land leases have terms of 2 to 10 years and include one or more options to renew, with renewal terms that can extend the lease term from 1 to 5 years or more. Certain of our lease agreements include lease payments based on a percentage of net gaming revenue and others include rental payment adjustments periodically for inflation. The estimated discount rate for each of our leases is determined based on adjustments made to our secured debt borrowing rate.

The components of total lease cost were as follows:

<i>(in millions)</i>	Twelve Months Ended December 31, 2019
Short-term lease cost ^{(a) (b)}	\$ 14.3
Operating lease cost ^(b)	6.7
Total lease cost	<u>\$ 21.0</u>

(a) Includes leases with terms of one month or less

(b) Includes variable lease costs, which were not material

Other information related to operating leases was as follows:

<i>(in millions)</i>	Twelve Months Ended December 31, 2019
Supplemental Cash Flow Information	
Cash paid for amounts included in the measurement of lease liabilities	\$ 5.2
ROUAs obtained in exchange for lease obligations	\$ 3.7

Lease Term and Discount Rate	December 31, 2019
Weighted average remaining lease term	6.5 years
Weighted average discount rate	3.9%

As of December 31, 2019, the future undiscounted cash flows associated with the Company's operating lease liabilities were as follows:

<i>(in millions)</i>	Totals
Years Ended December 31,	
2020	\$ 5.6
2021	5.1
2022	4.0
2023	3.4
2024	3.3
Thereafter	8.3
Total future minimum lease payments	29.7
Less: Imputed interest	3.5
Present value of lease liabilities	<u>\$ 26.2</u>
Reported lease liabilities as of December 31, 2019	
Accrued expense and other current liabilities (current maturities of leases)	\$ 5.0
Other liabilities (non-current maturities of leases)	21.2
Present value of lease liabilities	<u>\$ 26.2</u>

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As required by ASC 842, the future minimum operating lease payments on non-cancelable leases as of December 31, 2018 under the accounting standards in effect as of that period were as follows:

<u>Years Ended December 31,</u>		
2019	\$	5.0
2020		4.5
2021		3.8
2022		3.1
2023		3.0
Thereafter		11.2
Total	\$	<u>30.6</u>

16. DIRECTOR AND EMPLOYEE BENEFIT PLANS

Directors and Officers Retirement Plan

We provide eligible executives and directors an opportunity to defer to a future date the receipt of base and bonus compensation for services as well as director's fees through the 2005 Deferred Compensation Plan (the "Deferred Plan"). Our matching contribution on base compensation deferral of executives equals the matching contribution of our profit-sharing plan with certain limits.

Our directors may elect to invest the deferred director fee compensation into our common stock within the Deferred Plan. Investments in our common stock are credited as hypothetical shares of common stock based on the market price of the stock at the time the compensation was earned. Upon the end of the director's service, common stock shares are issued to the director.

On December 13, 2019, the Compensation Committee elected to freeze the Deferred Plan with respect to employee participant deferrals after the 2019 plan year, although directors will continue to participate in the Deferred Plan.

On December 13, 2019, the Compensation Committee adopted the Churchill Downs Incorporated Restricted Stock Unit Deferral Plan (the "RSU Deferral Plan"), effective January 1, 2020. Certain individual employees who are management or highly compensated employees of the Company may elect to defer settlement of RSUs granted pursuant to the 2016 Incentive Plan.

Other Retirement Plans

We have a profit-sharing plan that covers all employees not otherwise participating in an associated profit-sharing plan, with three months or more of service. We match contributions made by employees up to 3% of the employee's annual compensation and match at 50% contributions made by the employee up to an additional 2% of compensation with certain limits. We 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. Our cash contribution to the plan was \$4.1 million in 2019, \$3.0 million in 2018, and \$2.7 million in 2017.

We are 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 was \$0.6 million in 2019, and \$0.7 million in both 2018 and 2017. Our policy is to fund this expense as accrued, and we currently estimate that future contributions to these plans will not increase significantly from prior years.

17. FAIR VALUE OF ASSETS AND LIABILITIES

We endeavor 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 methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate:

Restricted Cash

Our restricted cash accounts that 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.

Debt

The fair value of the Company's 2028 Senior Notes and 2027 Senior Notes are estimated based on unadjusted quoted prices for identical or similar liabilities in markets that are not active and as such are Level 2 measurements. The fair value of the Company's Senior Secured Term Loan B due 2024 (the "Term Loan B") approximates its gross carrying value as it is variable rate debt and as such is a Level 2 measurement.

The carrying amounts and estimated fair values by input level of the Company's financial instruments are as follows:

		December 31, 2019				
<i>(in millions)</i>	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
Financial assets:						
Restricted cash	\$ 46.3	\$ 46.3	\$ 46.3	\$ —	\$ —	
Financial liabilities:						
Term Loan B	388.0	392.0	—	392.0	—	
2027 Senior Notes	592.0	636.0		636.0		
2028 Senior Notes	493.9	515.2	—	515.2	—	

		December 31, 2018				
<i>(in millions)</i>	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
Financial assets:						
Restricted cash	\$ 40.0	\$ 40.0	\$ 40.0	\$ —	\$ —	
Financial liabilities:						
Term Loan B	391.3	396.0	—	396.0	—	
2028 Senior Notes	493.0	452.4	—	452.4	—	

18. CONTINGENCIES

We are involved in litigation arising in the ordinary course of conducting business. We carry insurance for workers' compensation claims from our employees and general liability for claims from independent contractors, customers and guests. We are self-insured up to an aggregate stop loss for our general liability and workers' compensation coverages.

We review all litigation on an ongoing basis when making accrual and disclosure decisions. For certain legal proceedings, we cannot reasonably estimate losses or a range of loss, if any, particularly for proceedings that are in the early stages of development or where the plaintiffs seek indeterminate damages. Various factors, including but not limited to, the outcome of potentially lengthy discovery and the resolution of important factual questions, may need to be determined before probability can be established or before a loss or range of loss can be reasonably estimated. In accordance with current accounting standards for loss contingencies and based upon information currently known to us, we establish reserves for litigation when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss or range of loss can be reasonably estimated. When no amount within the range of loss is a better estimate than any other amount, we accrue the minimum amount of the estimable loss. To the extent that such litigation against us may have an exposure to a loss in excess of the amount we have accrued, we believe that such excess would not be material to our consolidated financial condition, results of operations, or cash flows. Legal fees are expensed as incurred.

If the loss contingency in question is not both probable and reasonably estimable, we do not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

estimable. In the event that a legal proceeding results in a substantial judgment against, or settlement by us, there can be no assurance that any resulting liability or financial commitment would not have a material adverse impact on our business.

Louisiana Environmental Protection Agency Non-Compliance Issue

On December 6, 2013, we received a notice from the United States Environmental Protection Agency ("EPA") regarding alleged CAFO non-compliance at Fair Grounds Race Course. On October 21, 2019, we reached an agreement in principle, subject to final regulatory and court approval. If approved, the agreement will include a \$2.8 million penalty, which has been accrued and is included in selling, general and administrative expense in our accompanying consolidated statement of comprehensive income for the year ended December 31, 2019, and accrued expense and other current liabilities in our accompanying consolidated balance sheet at December 31, 2019.

19. NET INCOME PER COMMON SHARE COMPUTATIONS

The following is a reconciliation of the numerator and denominator of the net income per common share computations:

	Years Ended December 31,		
	2019	2018	2017
<i>(in millions, except per share data)</i>			
Numerator for basic net income per common share:			
Net income from continuing operations	\$ 139.6	\$ 182.6	\$ 122.4
Net loss attributable to noncontrolling interest	(0.3)	—	—
Net income from continuing operations, net of loss attributable to noncontrolling interests	139.9	182.6	122.4
Net income from continuing operations allocated to participating securities	—	—	(0.1)
Net (loss) income from discontinued operations	(2.4)	170.2	18.1
Numerator for basic net income per common share	<u>\$ 137.5</u>	<u>\$ 352.8</u>	<u>\$ 140.4</u>
Numerator for diluted net income from continuing operations per common share	<u>\$ 139.9</u>	<u>\$ 182.6</u>	<u>\$ 122.4</u>
Numerator for diluted net income per common share	<u>\$ 137.5</u>	<u>\$ 352.8</u>	<u>\$ 140.5</u>
Denominator for net income per common share:			
Basic	40.1	41.3	47.2
Plus dilutive effect of stock awards	0.5	0.3	0.6
Plus dilutive effect of participating securities	—	—	0.2
Diluted	<u>40.6</u>	<u>41.6</u>	<u>48.0</u>
Net income (loss) per common share data:			
Basic			
Continuing operations	\$ 3.49	\$ 4.42	\$ 2.59
Discontinued operations	\$ (0.06)	\$ 4.12	\$ 0.38
Net income per common share - basic	<u>\$ 3.43</u>	<u>\$ 8.54</u>	<u>\$ 2.97</u>
Diluted			
Continuing operations	\$ 3.44	\$ 4.39	\$ 2.55
Discontinued operations	\$ (0.06)	\$ 4.09	\$ 0.37
Net income per common share - diluted	<u>\$ 3.38</u>	<u>\$ 8.48</u>	<u>\$ 2.92</u>

20. SEGMENT INFORMATION

We manage our operations through three reportable segments: Churchill Downs, Online Wagering and Gaming. Refer to Note 1, Description of Business, for additional information regarding the changes we made to our segments during the first quarter of 2019. Prior year amounts have been reclassified to conform to this presentation.

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

Eliminations include the elimination of intersegment transactions. We utilize non-GAAP measures, including EBITDA (earnings before interest, taxes, depreciation and amortization) and Adjusted EBITDA. Our chief operating decision maker utilizes Adjusted EBITDA to evaluate segment performance, develop strategy and allocate resources. Adjusted EBITDA includes the following adjustments:

Adjusted EBITDA includes our portion of EBITDA from our equity investments.

Adjusted EBITDA excludes:

- Transaction expense, net which includes:
 - Acquisition and disposition related charges, including fair value adjustments related to earnouts and deferred payments;
 - Calder racing exit costs; and
 - Other transaction expense, including legal, accounting, and other deal-related expense;
- Stock-based compensation expense;
- Midwest Gaming's impact on our investments in unconsolidated affiliates from:
 - The impact of changes in fair value of interest rate swaps; and
 - Recapitalization and transaction costs;
- Asset impairments;
- Gain on Ocean Downs/Saratoga Transaction;
- Loss on extinguishment of debt;
- Legal reserves;
- Pre-opening expense; and
- Other charges, recoveries and expenses

We utilize the Adjusted EBITDA metric to provide a more accurate measure of our core operating results and enable management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. Adjusted EBITDA should not be considered as an alternative to operating income as an indicator of performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure provided in accordance with GAAP. Our calculation of Adjusted EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited. For segment reporting, Adjusted EBITDA includes intercompany revenue and expense totals that are eliminated in the accompanying consolidated statements of comprehensive income.

Effective January 1, 2019, the Company does not allocate corporate and other related expenses to our segments in the accompanying consolidated statements of comprehensive income. The prior year amounts in the accompanying consolidated statements of comprehensive income were reclassified to conform to this presentation.

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

The tables below present net revenue from external customers and intercompany revenue from each of our segments, Adjusted EBITDA by segment and reconciles comprehensive income to Adjusted EBITDA:

<i>(in millions)</i>	Years Ended December 31,		
	2019	2018	2017
Net revenue from external customers:			
Churchill Downs:			
Churchill Downs Racetrack	\$ 187.6	\$ 181.0	\$ 161.3
Derby City Gaming	86.6	14.8	—
Total Churchill Downs	274.2	195.8	161.3
Online Wagering:			
TwinSpires	289.9	290.2	255.6
Online Sports Betting and iGaming	0.6	—	—
Total Online Wagering	290.5	290.2	255.6
Gaming:			
Presque Isle	138.5	—	—
Fair Grounds and VSI	123.0	117.7	111.1
Oxford Casino	101.7	102.0	90.8
Calder	99.8	98.6	87.9
Ocean Downs	85.9	25.9	—
Riverwalk Casino	58.9	54.5	48.2
Harlow's Casino	55.3	50.2	50.0
Lady Luck Nemaquin	29.3	—	—
Saratoga	—	0.6	1.3
Total Gaming	692.4	449.5	389.3
All Other	72.6	73.5	76.4
Net revenue from external customers	\$ 1,329.7	\$ 1,009.0	\$ 882.6
Intercompany net revenues:			
Churchill Downs	\$ 15.2	\$ 12.7	\$ 11.4
Online Wagering	1.1	1.3	1.1
Gaming:			
Fair Grounds and VSI	1.8	1.6	1.6
Calder	0.1	0.1	—
Presque Isle	0.5	—	—
Total Gaming	2.4	1.7	1.6
All Other	11.6	11.2	10.8
Eliminations	(30.3)	(26.9)	(24.9)
Intercompany net revenue	\$ —	\$ —	\$ —

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

Twelve Months Ended December 31, 2019

(in millions)

Net revenue from external customers

Pari-mutuel:

	Churchill Downs	Online Wagering	Gaming	Total Segments	All Other	Total
Live and simulcast racing	\$ 59.0	\$ 277.1	\$ 30.7	\$ 366.8	\$ 41.1	\$ 407.9
Historical racing ^(a)	81.6	—	—	81.6	—	81.6
Racing event-related services	118.7	—	4.1	122.8	5.6	128.4
Gaming ^(a)	—	0.6	585.2	585.8	—	585.8
Other ^(a)	14.9	12.8	72.4	100.1	25.9	126.0
Total	\$ 274.2	\$ 290.5	\$ 692.4	\$ 1,257.1	\$ 72.6	\$ 1,329.7

Twelve Months Ended December 31, 2018

(in millions)

Net revenue from external customers

Pari-mutuel:

	Churchill Downs	Online Wagering	Gaming	Total Segments	All Other	Total
Live and simulcast racing	\$ 54.9	\$ 278.4	\$ 27.1	\$ 360.4	\$ 43.1	\$ 403.5
Historical racing ^(a)	13.8	—	—	13.8	—	13.8
Racing event-related services	115.2	—	3.9	119.1	5.8	124.9
Gaming ^(a)	—	—	365.9	365.9	—	365.9
Other ^(a)	11.9	11.8	52.6	76.3	24.6	100.9
Total	\$ 195.8	\$ 290.2	\$ 449.5	\$ 935.5	\$ 73.5	\$ 1,009.0

Twelve Months Ended December 31, 2017

(in millions)

Net revenue from external customers

Pari-mutuel:

	Churchill Downs	Online Wagering	Gaming	Total Segments	All Other	Total
Live and simulcast racing	\$ 52.0	\$ 239.6	\$ 27.1	\$ 318.7	\$ 44.8	\$ 363.5
Historical racing ^(a)	—	—	—	—	—	—
Racing event-related services	100.5	—	4.2	104.7	6.4	111.1
Gaming ^(a)	—	—	315.6	315.6	—	315.6
Other ^(a)	8.8	16.0	42.4	67.2	25.2	92.4
Total	\$ 161.3	\$ 255.6	\$ 389.3	\$ 806.2	\$ 76.4	\$ 882.6

- (a) Food and beverage, hotel, and other services furnished to customers for free as an inducement to wager or through the redemption of our customers' loyalty points are recorded at the estimated standalone selling prices in Other revenue with a corresponding offset recorded as a reduction in historical racing pari-mutuel revenue for HRMs or gaming revenue for our casino properties. These amounts were \$33.4 million in 2019, \$26.1 million in 2018, and \$21.5 million in 2017.

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

Adjusted EBITDA by segment is comprised of the following:

<i>(in millions)</i>	Year Ended December 31, 2019		
	Churchill Downs	Online Wagering	Gaming
Net revenue	\$ 289.4	\$ 291.6	\$ 694.8
Taxes and purses	(66.5)	(15.3)	(270.3)
Marketing and advertising	(7.1)	(12.2)	(21.5)
Salaries and benefits	(32.0)	(11.4)	(103.3)
Content expense	(2.4)	(152.8)	(6.0)
Selling, general and administrative expense	(8.0)	(7.2)	(29.0)
Other operating expense	(35.9)	(26.4)	(84.1)
Other income	0.2	—	100.3
Adjusted EBITDA	<u>\$ 137.7</u>	<u>\$ 66.3</u>	<u>\$ 280.9</u>

<i>(in millions)</i>	Year Ended December 31, 2018		
	Churchill Downs	Online Wagering	Gaming
Net revenue	\$ 208.5	\$ 291.5	\$ 451.2
Taxes and purses	(41.3)	(15.2)	(153.4)
Marketing and advertising	(5.7)	(6.0)	(15.5)
Salaries & benefits	(23.7)	(9.2)	(68.9)
Content expense	(2.2)	(152.0)	(4.1)
Selling, general and administrative expense	(5.3)	(5.9)	(18.6)
Other operating expense	(28.0)	(24.2)	(60.0)
Other income	0.1	—	43.3
Adjusted EBITDA	<u>\$ 102.4</u>	<u>\$ 79.0</u>	<u>\$ 174.0</u>

<i>(in millions)</i>	Year Ended December 31, 2017		
	Churchill Downs	Online Wagering	Gaming
Net revenue	\$ 172.7	\$ 256.7	\$ 390.9
Taxes and purses	(34.1)	(14.7)	(130.7)
Marketing and advertising	(2.7)	(8.2)	(13.0)
Salaries & benefits	(19.3)	(9.9)	(63.4)
Content expense	(2.4)	(125.0)	(4.0)
Selling, general and administrative expense	(4.0)	(6.9)	(17.1)
Other operating expense	(21.3)	(22.1)	(56.1)
Other income	0.1	—	42.0
Adjusted EBITDA	<u>\$ 89.0</u>	<u>\$ 69.9</u>	<u>\$ 148.6</u>

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

<i>(in millions)</i>	Years Ended December 31,		
	2019	2018	2017
Reconciliation of Comprehensive Income to Adjusted EBITDA:			
Comprehensive income attributable to CDI	\$ 137.5	\$ 353.2	\$ 140.4
Foreign currency translation, net of tax	—	(0.6)	0.1
Change in pension benefits, net of tax	—	0.2	—
Net income attributable to CDI	137.5	352.8	140.5
Net loss attributable to noncontrolling interest	0.3	—	—
Net income before noncontrolling interest	137.2	352.8	140.5
Loss (income) from discontinued operations, net of tax	2.4	(170.2)	(18.1)
Income from continuing operations, net of tax	139.6	182.6	122.4
Additions:			
Depreciation and amortization	96.4	63.6	56.0
Interest expense	70.9	40.1	49.3
Loss on extinguishment of debt	—	—	20.7
Income tax provision (benefit)	56.8	51.3	(19.9)
EBITDA	<u>\$ 363.7</u>	<u>\$ 337.6</u>	<u>\$ 228.5</u>
Adjustments to EBITDA:			
Selling, general and administrative:			
Stock-based compensation expense	\$ 23.8	\$ 17.7	\$ 16.0
Legal reserves	3.6	—	—
Other, net	0.4	(0.6)	0.5
Pre-opening expense	5.1	4.8	0.5
Other income, expense:			
Interest, depreciation and amortization expense related to equity investments	32.6	13.9	16.7
Changes in fair value of Midwest Gaming's interest rate swaps	12.4	—	—
Midwest Gaming's recapitalization and transactions costs	4.7	—	—
Other charges and recoveries, net	(0.2)	—	—
Gain on Ocean Downs/Saratoga transaction	—	(54.9)	—
Transaction expense, net	5.3	10.3	2.3
Impairment of tangible and other intangible assets	—	—	21.7
Total adjustments to EBITDA	<u>87.7</u>	<u>(8.8)</u>	<u>57.7</u>
Adjusted EBITDA	<u>\$ 451.4</u>	<u>\$ 328.8</u>	<u>\$ 286.2</u>
Adjusted EBITDA by segment:			
Churchill Downs	\$ 137.7	\$ 102.4	\$ 89.0
Online Wagering	66.3	79.0	69.9
Gaming	280.9	174.0	148.6
Total segment Adjusted EBITDA	484.9	355.4	307.5
All Other	(33.5)	(26.6)	(21.3)
Total Adjusted EBITDA	<u>\$ 451.4</u>	<u>\$ 328.8</u>	<u>\$ 286.2</u>

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

The table below presents information about equity in income of unconsolidated affiliates included in our reported segments:

<i>(in millions)</i>	Years Ended December 31,		
	2019	2018	2017
Gaming	\$ 50.5	\$ 29.4	\$ 25.3
All Other	0.1	0.2	0.2
	<u>\$ 50.6</u>	<u>\$ 29.6</u>	<u>\$ 25.5</u>

The table below presents total asset information for each of our segments:

<i>(in millions)</i>	As of December 31,	
	2019	2018
Total assets:		
Churchill Downs	\$ 370.3	\$ 359.6
Online Wagering	241.5	222.8
Gaming	1,030.1	877.1
Total segment assets	1,641.9	1,459.5
All Other	909.1	265.7
	<u>\$ 2,551.0</u>	<u>\$ 1,725.2</u>

The table below presents total capital expenditures for each of our segments:

<i>(in millions)</i>	Years Ended December 31,		
	2019	2018	2017
Capital expenditures:			
Churchill Downs	\$ 31.4	\$ 109.6	\$ 54.1
Online Wagering	9.7	9.7	9.0
Gaming	37.1	20.7	39.7
Total segment capital expenditures	78.2	140.0	102.8
All Other	53.0	9.4	6.2
Total capital expenditures	<u>\$ 131.2</u>	<u>\$ 149.4</u>	<u>\$ 109.0</u>

21. RELATED PARTY TRANSACTIONS

Directors and employees may from time to time own or have interests in horses racing at our racetracks. All such races are conducted under the regulations of each state's respective regulatory agency, as applicable, and no director or employee 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 or employees who may have interests in horses racing at our racetracks.

In the ordinary course of business, we may enter into transactions with certain of our officers and directors for the sale of personal seat licenses, suite accommodations, and tickets for our live racing events. We believe that each such transaction has been on terms no less favorable for us than could have been obtained in a transaction with a third party, and no officer or director received any extra or special benefit in connection with such transactions.

On June 9, 2017, we entered into an agreement with a related party, TDG, to repurchase 3,000,000 shares of the Company's common stock for \$52.93 per share in a privately negotiated transaction. The aggregate purchase price was \$158.8 million.

Refer to Note 9, Shareholders' Equity, for additional information related to the repurchases.

22. SUBSEQUENT EVENTS

As of the date of this filing, there were no subsequent events.

23. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

(in millions, except per common share data)

	Year Ended December 31, 2019			
	First Quarter^(a)	Second Quarter	Third Quarter	Fourth Quarter^(b)
Net revenues	\$ 265.4	\$ 477.4	\$ 306.3	\$ 280.6
Operating income	28.0	156.4	27.8	3.5
Income from continuing operations, net of tax	11.9	108.3	15.2	4.2
Income (loss) from discontinued operations, net of tax	(0.3)	(1.2)	(0.4)	(0.5)
Net income (loss) per common share - basic ^(c) :				
Continuing operations	\$ 0.30	\$ 2.70	\$ 0.38	\$ 0.11
Discontinued operations	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ (0.01)
Net income per common share - basic	<u>\$ 0.29</u>	<u>\$ 2.67</u>	<u>\$ 0.37</u>	<u>\$ 0.10</u>
Net income (loss) per common share - diluted ^(c) :				
Continuing operations	\$ 0.30	\$ 2.66	\$ 0.37	\$ 0.11
Discontinued operations	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ (0.01)
Net income per common share - diluted	<u>\$ 0.29</u>	<u>\$ 2.63</u>	<u>\$ 0.36</u>	<u>\$ 0.10</u>

(in millions, except per common share data)

	Year Ended December 31, 2018			
	First Quarter^(c)	Second Quarter	Third Quarter^(d)	Fourth Quarter
Net revenues	\$ 189.3	\$ 379.4	\$ 221.3	\$ 219.0
Operating income	19.7	136.6	20.5	12.0
Income from continuing operations, net of tax	14.1	103.2	58.0	7.3
Income (loss) from discontinued operations, net of tax	167.9	(0.1)	(1.7)	4.1
Net income (loss) per common share - basic ^(e) :				
Continuing operations	\$ 0.33	\$ 2.54	\$ 1.43	\$ 0.18
Discontinued operations	3.88	—	(0.04)	0.10
Net income per common share - basic	<u>\$ 4.21</u>	<u>\$ 2.54</u>	<u>\$ 1.39</u>	<u>\$ 0.28</u>
Net income (loss) per common share - diluted ^(e) :				
Continuing operations	\$ 0.32	\$ 2.52	\$ 1.42	\$ 0.18
Discontinued operations	3.86	—	(0.04)	0.10
Net income per common share - diluted	<u>\$ 4.18</u>	<u>\$ 2.52</u>	<u>\$ 1.38</u>	<u>\$ 0.28</u>

(a) First quarter of 2019 includes the acquisitions of Presque Isle and Lady Luck Nemaocolin, and equity investment in Midwest Gaming.

(b) Fourth quarter of 2019 includes the acquisition of Turfway Park and \$10.0 million accelerated amortization of the purchase and sale rights related to the Turfway Park Acquisition.

(c) First quarter of 2018 includes a \$219.5 million gain on the Big Fish Games Transaction, which is included as a discontinued operation.

(d) Third quarter of 2018 includes a \$54.9 million gain on the Ocean Downs/Saratoga Transaction.

(e) Net income per common share calculations for each quarter are based on the weighted average number of shares outstanding during the respective period. The sum of the quarters may not equal the full-year income (loss) per share.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Churchill Downs Incorporated

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Churchill Downs Incorporated and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2019, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2019 listed in the index appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019 and the manner in which it accounts for revenue from contracts with customers in 2018.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, 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 the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

As described in Management’s Report on Internal Control over Financial Reporting, management has excluded Presque Isle Downs and Casino (“Presque Isle”) and Turfway Park from its assessment of internal control over financial reporting as of December 31, 2019 because they were acquired by the Company in purchase business combinations during 2019. We have also excluded Presque Isle and Turfway Park from our audit of internal control over financial reporting. Presque Isle and Turfway Park are wholly-owned subsidiaries whose total assets and total revenues excluded from management’s assessment and our audit of internal control over financial reporting collectively represent 9.3% and 10.7%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2019.

Definition and Limitations of Internal Control over Financial Reporting

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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of the Presque Isle Indefinite-Lived Gaming Rights Intangible Asset

As described in Notes 1 and 3 to the consolidated financial statements, in 2019 the Company completed the acquisition of Presque Isle for cash consideration of \$178.9 million, which resulted in a \$56.0 million indefinite-lived gaming rights intangible asset being recorded. The fair value of the gaming rights intangible asset was determined by management using the Greenfield Method, which is an income approach methodology that calculates the present value of the overall business enterprise based on a projected cash flow stream. The primary inputs used by management in the estimation of the fair value of the gaming rights intangible asset included estimated future revenue and operating expenses, start-up costs, and discount rate.

The principal considerations for our determination that performing procedures relating to the valuation of the Presque Isle indefinite-lived gaming rights intangible asset is a critical audit matter are (i) there was a high degree of auditor judgment and subjectivity in applying procedures relating to the fair value measurement of the gaming rights intangible asset acquired due to the significant amount of judgment by management when developing the fair value estimate, (ii) significant audit effort was required in evaluating the estimated future revenue, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the acquisition accounting, including controls over management's valuation of the gaming rights intangible asset and controls over the development of the estimated future revenue assumption. These procedures also included, among others, reading the purchase agreement, testing management's process for estimating the fair value of the gaming rights intangible asset, and testing management's projected cash flows used to estimate the fair value of the gaming rights intangible asset. Testing management's process included evaluating the appropriateness of the Greenfield Method and the reasonableness of the estimated future revenue significant assumption. Evaluating the reasonableness of the estimated future revenue involved considering the past performance of Presque Isle, as well as economic and industry forecasts. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's Greenfield Method.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky

February 26, 2020

We have served as the Company's auditor since 1990.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURESEvaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports that we filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As required by the Securities and Exchange Commission Rule 13a-15(e), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2019. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of Churchill Downs Incorporated, as defined in Rules 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of Churchill Downs Incorporated's internal control over financial reporting based upon the framework in the *Integrated Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon our evaluation under the framework in the *Internal Control-Integrated Framework (2013)* management has concluded that Churchill Downs Incorporated's internal control over financial reporting was effective as of December 31, 2019.

In January 2019, we completed the Presque Isle Transaction, and in October 2019, we completed the Turfway Park Acquisition, and have not fully incorporated the internal controls and procedures with respect to these transactions as the integration activities are ongoing. Accordingly, management excluded Presque Isle and Turfway Park from its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2019. Presque Isle and Turfway Park represented approximately 10.7% of consolidated net revenues of the Company for the year ended December 31, 2019, and approximately 9.3% of consolidated total assets as of December 31, 2019.

/s/ William C. Carstanjen

William C. Carstanjen

Chief Executive Officer

February 26, 2020

/s/ Marcia A. Dall

Marcia A. Dall

Executive Vice President and

Chief Financial Officer

February 26, 2020

/s/ Chad E. Dobson

Chad E. Dobson

Vice President and

Chief Accounting Officer

February 26, 2020

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to our directors and audit committee is incorporated by reference to the definitive proxy statement on Schedule 14A to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2019.

We have adopted a Code of Conduct that applies to all directors, employees, and officers, including our Chief Executive Officer, Chief Financial Officer and principal financial officers. This Code of Conduct is available on our corporate website, www.churchilldownsincorporated.com, under the "Corporate Governance" subheading of the "Investors" heading and is also available to shareholders upon request.

Information about our Executive Officers

<u>Name</u>	<u>Age as of 2/26/2020</u>	<u>Principal Occupation for the Past Five Years and Position with Churchill Downs Incorporated</u>
William C. Carstanjen	52	Chief Executive Officer since August 2014; President and Chief Operating Officer from March 2011 to August 2014.
William E. Mudd	48	President and Chief Operating Officer since October 2015; President and Chief Financial Officer from August 2014 to October 2015; Executive Vice President and Chief Financial Officer from October 2007 to August 2014.
Marcia A. Dall	56	Executive Vice President and Chief Financial Officer since October 2015; Executive Vice President and Chief Financial Officer of Erie Insurance Group / Erie Indemnity Company, a public corporation (Nasdaq: ERIE), from March 2009 through October 2015.
Austin W. Miller	56	Senior Vice President of Gaming Operations since August 2013.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item with respect to executive compensation is incorporated by reference to the definitive proxy statement on Schedule 14(a) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2019; provided, that the Compensation Committee Report will not be deemed to be "filed" with this Report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this item with respect to security ownership of certain beneficial owners and management and related shareholder matters is with respect to securities authorized for issuance under equity compensation plans incorporated by reference to the definitive proxy statement on Schedule 14A to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2019.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item with respect to transactions with related persons and director independence matters is incorporated by reference to the definitive proxy statement on Schedule 14A to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2019.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item with respect to principal accounting fees and services is incorporated by reference to the definitive proxy statement on Schedule 14A to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2019.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

	<u>Pages</u>
(a) (1) Consolidated Financial Statements	
The following financial statements of Churchill Downs Incorporated for the years ended 2019, 2018 and 2017 are included in Part II, Item 8:	
<u>Consolidated Balance Sheets</u>	<u>54</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>53</u>
<u>Consolidated Statements of Shareholders' Equity</u>	<u>55</u>
<u>Consolidated Statements of Cash Flows</u>	<u>56</u>
<u>Notes to Consolidated Financial Statements</u>	<u>58</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>97</u>
(2) <u>Schedule II—Valuation and Qualifying Accounts</u>	<u>108</u>
All other schedules are omitted because they are not applicable, not significant or not required, or because the required information is included in the consolidated financial statements or notes thereto.	
(3) For the list of required exhibits, see exhibit index.	<u>102</u>
(b) Exhibits	<u>102</u>
<u>See exhibit index.</u>	
(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.	

EXHIBIT INDEX

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
2 (a)	Stock Purchase Agreement, dated as of November 29, 2017, by and among Aristocrat Technologies, Inc., Churchill Downs Incorporated and Big Fish Games, Inc.	Exhibit 2.1 to Current Report on Form 8-K (Commission file number 001-33998) filed on November 30, 2017**
3 (a)	Amended and Restated Articles of Incorporation of Churchill Downs Incorporated, as amended and restated on January 25, 2019	Exhibit 3.2 to Current Report on Form 8-K (Commission file number 001-33998) filed January 17, 2019
(b)	Amended and Restated Bylaws of Churchill Downs Incorporated, as amended July 3, 2012	Exhibit 3.2 to Current Report on Form 8-K (Commission file number 001-33998) 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 (Commission file number 000-01469) filed March 17, 2008
(b)	Indenture, dated as of December 27, 2017, by and among Churchill Downs Incorporated, the guarantors party thereto and U.S. Bank National Association	Exhibit 4.1 to Current Report on Form 8-K (Commission file number 001-33998) filed December 27, 2017
(c)	Indenture, dated as of March 25, 2019, by and among Churchill Downs Incorporated, the guarantors party thereto and U.S. Bank National Association	Exhibit 4.1 to Current Report on Form 8-K (Commission file number 001-33998) filed March 26, 2019
(d)	Registration Rights Agreement, dated as of December 27, 2017, by and among Churchill Downs Incorporated, the guarantors party thereto and J.P. Morgan Securities LLC	Exhibit 4.2 to Current Report on Form 8-K (Commission file number 001-33998) filed December 27, 2017
(e)	Registration Rights Agreement, dated as of March 25, 2019, by and among Churchill Downs Incorporated, the guarantors party thereto and J.P. Morgan Securities, LLC	Exhibit 4.2 to Current Report on Form 8-K (Commission file number 001-33998) filed March 26, 2019
(f)	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934***	
10 (a)	Churchill Downs Incorporated Amended and Restated Supplemental Benefit Plan effective December 1, 1998*	Exhibit 10(a) to Annual Report on Form 10-K (Commission file number 000-01469) for the fiscal year ended December 31, 1998 filed March 31, 1999
(b)	Churchill Downs Incorporated Amended and Restated Deferred Compensation Plan for Employees and Directors*	Exhibit 10(a) to Quarterly Report on Form 10-Q (Commission file number 000-01469) for the fiscal quarter ended March 31, 2001 filed May 15, 2001
(c)	Lease Agreement, dated as of January 1, 2002, by and between the City of Louisville, Kentucky and Churchill Downs Incorporated	Exhibit 2.1 to Current Report on Form 8-K (Commission file number 000-01469) filed January 6, 2003
(d)	2005 Churchill Downs Incorporated Deferred Compensation Plan*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 000-01469) filed June 21, 2005
(e)	2006 Amendment to 2005 Churchill Downs Incorporated Deferred Compensation Plan*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 000-01469) filed June 8, 2006
(f)	Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan*	Exhibit A to Schedule 14A (Commission file number 000-01469) filed April 30, 2007
(g)	Amendment to Churchill Downs Incorporated 2005 Deferred Compensation Plan Adopted June 28, 2007*	Exhibit 10(b) to Quarterly Report on Form 10-Q (Commission file number 000-01469) for the fiscal quarter ended June 30, 2007 filed August 7, 2007

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
(h)	Third Amendment to the 2005 Churchill Downs Incorporated Deferred Compensation Plan*	Exhibit 10.2 to Current Report on Form 8-K (Commission file number 001-33998) filed December 19, 2019
(i)	Amended and Restated Terms and Conditions of Performance Stock Awards Issued Pursuant to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan, dated as of December 19, 2008*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed December 22, 2008
(j)	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 (Commission file number 001-33998) for the fiscal year ended December 31, 2008 filed March 4, 2009
(k)	2005 Churchill Downs Incorporated Deferred Compensation Plan (As Amended as of December 1, 2008)*	Exhibit 10 (ww) to Annual Report on Form 10-K (Commission file number 001-33998) for the fiscal year ended December 31, 2008 filed March 4, 2009
(l)	Churchill Downs Incorporated Executive Severance Policy (Amended Effective as of November 12, 2008)*	Exhibit 10 (xx) to Annual Report on Form 10-K (Commission file number 001-33998) for the fiscal year ended December 31, 2008 filed March 4, 2009
(m)	Form of Churchill Downs Incorporated Restricted Stock Agreement pursuant to the 2007 Omnibus Stock Incentive Plan*	Exhibit 10(LL) to Annual Report on Form 10-K (Commission file number 001-33998) for the fiscal year ended December 31, 2011 filed March 12, 2012
(n)	Churchill Downs Incorporated Executive Annual Incentive Plan, effective January 1, 2013*	Exhibit A to Schedule 14A (Commission file number 001-33998) filed May 3, 2012
(o)	Amendment to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan*	Exhibit B to Schedule 14A (Commission file number 001-33998) filed May 3, 2012
(p)	Form of Restricted Stock Agreement pursuant to the 2007 Omnibus Stock Incentive Plan, dated as of February 9, 2015, by and between Churchill Downs Incorporated and each of William C. Carstanjen and William E. Mudd*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed February 12, 2015
(q)	Form of Churchill Downs Incorporated Restricted Stock Unit Agreement pursuant to the 2007 Omnibus Stock Incentive Plan*	Exhibit 10.1A to Current Report on Form 8-K (Commission file number 001-33998) filed September 28, 2015
(r)	Form of Churchill Downs Incorporated Performance Share Unit Agreement pursuant to the 2007 Omnibus Stock Incentive Plan*	Exhibit 10.1B to Current Report on Form 8-K (Commission file number 001-33998) filed September 28, 2015
(s)	Stock Repurchase Agreement, dated as of June 9, 2017, by and between Churchill Downs Incorporated and CDI Holdings, LLC	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed June 12, 2017
(t)	Amended and Restated Stockholder's Agreement, dated as of June 9, 2017, by and between Churchill Downs Incorporated and CDI Holdings, LLC	Exhibit 10.2 to Current Report on Form 8-K (Commission file number 001-33998) filed June 12, 2017
(u)	Credit Agreement, dated as of December 27, 2017, by and among Churchill Downs Incorporated, the subsidiary guarantors party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A. and PNC Bank, National Association	Exhibit 4.3 to Current Report on Form 8-K (Commission file number 001-33998) filed December 27, 2017
(v)	Form of Churchill Downs Incorporated Non-Employee Director Restricted Share Units Agreement*	Exhibit 10(a) to Quarterly Report on Form 10-Q (Commission file number 001-33998) for the fiscal quarter ended June 30, 2016 filed August 3, 2016
(w)	Churchill Downs Incorporated 2016 Omnibus Stock Incentive Plan*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed April 29, 2016

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
(x)	First Amended and Restated Churchill Downs Incorporated 2000 Employee Stock Purchase Plan*	Exhibit B to Schedule 14A (Commission file number 001-33998) filed March 29, 2016
(y)	Churchill Downs Incorporated Restricted Stock Unit Deferred Compensation Plan*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed December 19, 2019
(z)	Form of Performance Share Unit Agreement pursuant to the 2016 Omnibus Stock Incentive Plan by and between Churchill Downs Incorporated and each of William C. Carstanjen and William E. Mudd*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed November 5, 2018
(aa)	Form of Restricted Stock Unit Agreement pursuant to the 2016 Omnibus Stock Incentive Plan by and between Churchill Downs Incorporated and each of William C. Carstanjen and William E. Mudd*	Exhibit 10.2 to Current Report on Form 8-K (Commission file number 001-33998) filed November 5, 2018
(bb)	Executive Change in Control, Severance and Indemnity Agreement, dated as of October 30, 2018, by and between Churchill Downs Incorporated and William C. Carstanjen*	Exhibit 10.3 to Current Report on Form 8-K (Commission file number 001-33998) filed November 5, 2018
(cc)	Executive Change in Control, Severance and Indemnity Agreement, dated as of October 30, 2018, by and between Churchill Downs Incorporated and William E. Mudd*	Exhibit 10.4 to Current Report on Form 8-K (Commission file number 001-33998) filed November 5, 2018
(dd)	Executive Change in Control, Severance and Indemnity Agreement, dated as of October 12, 2015, by and between Churchill Downs Incorporated and Marcia A. Dall*	Exhibit 10(ee) to Annual Report on Form 10-K (Commission file number 001-33998) for the fiscal year ended December 31, 2018 filed February 27, 2019
(ee)	Change in Control, Severance, and Indemnity Agreement, dated as of October 1, 2019, by and between Churchill Downs Incorporated and Austin W. Miller*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed October 2, 2019
(ff)	First amendment to the Churchill Downs Incorporated Restricted Stock Unit Deferral Plan, dated as of February 12, 2020***	
21	Subsidiaries of the Registrant***	
23	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm***	
31	(a) Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002***	
	(b) Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002***	
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))* ***	
101	INS Inline XBRL Instance Document***	
101	SCH Inline XBRL Taxonomy Extension Schema Document***	
101	CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document***	
101	DEF Inline XBRL Taxonomy Extension Definition Linkbase Document***	
101	LAB Inline XBRL Taxonomy Extension Label Linkbase Document***	

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
101 PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document***	
104	Cover Page Interactive Data File (formatted in inline XBRL and contained in Exhibit 101)	

* Management contract or compensatory plan or arrangement.

** Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedules to the SEC upon request.

*** Filed herewith.

**** Furnished herewith.

ITEM 16. FORM 10-K SUMMARY

None.

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/ William C. Carstanjen

William C. Carstanjen
Chief Executive Officer
(Principal Executive Officer)
February 26, 2020

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/ William C. Carstanjen

William C. Carstanjen
Chief Executive Officer
February 26, 2020
(Director and Principal Executive Officer)

/s/ William E. Mudd

William E. Mudd
President and
Chief Operating Officer
February 26, 2020

/s/ Marcia A. Dall

Marcia A. Dall
Executive Vice President and
Chief Financial Officer
February 26, 2020
(Principal Financial and
Accounting Officer)

/s/ R. Alex Rankin

R. Alex Rankin
February 26, 2020
(Chairman of the Board)

/s/ Ulysses L. Bridgeman

Ulysses L. Bridgeman
February 26, 2020
(Director)

/s/ Robert L. Fealy

Robert L. Fealy
February 26, 2020
(Director)

/s/ Douglas C. Grissom

Douglas C. Grissom
February 26, 2020
(Director)

/s/ Daniel P. Harrington

Daniel P. Harrington
February 26, 2020
(Director)

/s/ Karole F. Lloyd

Karole F. Lloyd
February 26, 2020
(Director)

CHURCHILL DOWNS INCORPORATED
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

<i>(in millions)</i>	Balance Beginning of Year	Charged to Expense	Deductions	Balance End of Year
Allowance for doubtful accounts:				
2019	\$ 4.0	\$ 2.1	\$ (1.7)	\$ 4.4
2018	3.6	3.0	(2.6)	4.0
2017	3.5	1.8	(1.7)	3.6

<i>(in millions)</i>	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Deferred income tax asset valuation allowance:				
2019	\$ 0.2	\$ —	\$ —	\$ 0.2
2018	0.2	—	—	0.2
2017	0.4	—	(0.2)	0.2

DIRECTORS AND EXECUTIVE OFFICERS

Directors

Ulysses L. Bridgeman, Jr.
Owner & CEO
Heartland Coca-Cola Bottling
Company, LLC

William C. Carstanjen
Chief Executive Officer
Churchill Downs Incorporated

Robert L. Fealy
Managing Director
Limerick Investments, LLC

Douglas C. Grissom
Managing Director
Madison Dearborn Partners

Daniel P. Harrington
President & CEO
HTV Industries, Inc.

Karole F. Lloyd
Former Vice Chair and Southeast
Regional Managing Partner,
Ernst & Young, LLC

R. Alex Rankin
Chairman of the Board,
Churchill Downs Incorporated
Chairman, Sterling G. Thompson Co.
President, Upson Downs Farm, Inc.

Paul C. Varga
Former Chairman and CEO
Brown-Forman Corporation

Executive Officers

William C. Carstanjen
 Chief Executive Officer

William E. Mudd
 President & Chief Operating Officer

Marcia A. Dall
 Executive Vice President &
 Chief Financial Officer

Austin W. Miller
 Senior Vice President, Gaming Operations

Directors Emeriti

Charles W. Bidwill, Jr.
Catesby W. Clay
Craig J. Duchossois
Richard L. Duchossois
J. David Grissom
G. Watts Humphrey, Jr.
James F. McDonald
Thomas H. Meeker
Carl F. Pollard
Darrell R. Wells

Corporate Office

Churchill Downs Incorporated
 600 N. Hurstbourne Parkway
 Suite 400
 Louisville, KY 40222

Annual Meeting

The Annual Meeting of Shareholders will convene at 9:00 a.m. local time Tues., 4/21/20 at the Nemaocolin Woodlands Resort, 1001 Lafayette Drive, Farmington, Pennsylvania 15437.

Other Information

Copies of our 2019 Form 10-K and other filings with the Securities and Exchange Commission may be obtained without charge by contacting our corporate office or through our website:
www.churchilldownsincorporated.com

Stock Information

Churchill Downs Incorporated is traded on the NASDAQ Global Market under the ticker symbol "CHDN."

Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC
 59 Maiden Lane, Plaza Level
 New York, NY 10038
 Tel: (877) 715-0510

CHURCHILL DOWNS
INCORPORATED

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