

## **CORPORATE GOVERNANCE GUIDELINES**

The following Corporate Governance Guidelines have been adopted by the Board of Directors (the “Board”) of Churchill Downs Incorporated (the “Company”) to assist the Board in the exercise of its responsibilities to the Company and its stakeholders. These Guidelines should be interpreted in the context of all applicable laws and the Company’s Articles of Incorporation, Bylaws and other corporate governance documents, and are intended to serve as a flexible framework within which the Board may conduct its business and not as a set of legally binding obligations. These Guidelines are subject to modification and the Board may, in the exercise of its discretion, deviate from these Guidelines from time to time, as the Board may deem appropriate or as required by applicable laws and regulations.

### **1) Roles of Board and Management**

- (a) Board. The Board, which is elected by the shareholders, is the ultimate decision-making body of the Company except with respect to those matters reserved to the shareholders. The Board acts as an advisor and counselor to senior management and ultimately monitors management’s performance. In addition to its general oversight of management, the Board performs a number of specific functions, including:
  - (i) selecting, evaluating and compensating the Chief Executive Officer and overseeing Chief Executive Officer succession planning;
  - (ii) providing counsel and oversight on the selection, evaluation, development and compensation of senior management;
  - (iii) reviewing, approving and monitoring fundamental financial and business strategies and major corporate actions;
  - (iv) assessing major risks facing the Company and reviewing options for their mitigation; and
  - (v) ensuring processes are in place for maintaining the integrity of the Company, the integrity of the financial statements, the integrity of compliance with law and ethics, the integrity of relationships with customers and suppliers, and the integrity of relationships with other stakeholders.
  
- (b) Management.
  - (i) It is the responsibility of management to operate the Company in an effective and ethical manner in order to produce long-term value for stakeholders. Senior management is responsible for formulating and executing the long-term strategy of the Company, subject to review and modification by the Board, and understanding the risks inherent in the long-term strategy. Management must avoid putting personal interests ahead of or in conflict with the interests of the Company.
  - (ii) It is the responsibility of management, under the oversight of the Board and its Audit Committee, to produce financial statements that fairly present the financial

condition and results of operations of the Company, and to make all required disclosures in an accurate and fair manner.

- (iii) The Board believes that the management generally speaks for the Company. Individual directors may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. It is expected, however, that directors would do this with the knowledge of management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of management. Generally, directors should refer investors, market professionals and the media to the Chief Executive Officer or other individual designated by the Company.

## 2) **Composition of the Board; Vacancy**

- (a) Composition. The Board believes that the Company is best served when it is governed by directors who bring a variety of business disciplines and experiences to bear in corporate decisions. 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. The Board, through the Nominating and Governance Committee, will consider the following criteria, as well as other criteria deemed relevant, and will identify the specific criteria deemed relevant when it initially appoints or nominates an individual to fill a director vacancy :

- 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.
- General variety of backgrounds represented on the Board.
- Ownership in the Company's stock, including compliance with the Company's Stock Ownership Guidelines outlined in Paragraph 11.

Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board of Directors for an extended period of time.

- (b) Number of Directorships. There is no pre-determined limitation on the number of boards of directors of other publicly traded companies on which the directors of the Company may serve although no director should serve on more than three (3) audit committees of publicly traded companies (including the Audit Committee of the Company). The Nominating and Governance Committee has the discretion to evaluate additional service as necessary. The Board expects each director to use his judgment on directorship of other companies and to allow sufficient time and attention to Company matters. The Nominating and Governance Committee must approve the boards of directors of other publicly traded companies on which the Chief Executive Officer serves.
- (c) Chairman and Chief Executive Officer Positions. The positions of Chairman of the Board and Chief Executive Officer may be held by the same person or different persons as determined by resolution of the Board. The Chairman will have the following responsibilities in conjunction with the Lead Independent Director: (i) preside at all

Board meetings; (ii) serve as liaison between the Board and Company management; (iii) work with the Chief Executive Officer to formulate the Company's business strategies; and (iv) represent the Company, Board and management to the shareholders and the public.

- (d) Lead Independent Director. In the event that the Board designates one person to serve as the Chairman and Chief Executive Officer, the Board will then designate an independent director to serve as the Lead Independent Director. The Board will review the designation of Lead Independent Director periodically, but in no event less often than every two (2) years. The Lead Independent Director must be deemed independent under Nasdaq's listing standard and in conjunction with the Chairman of the Board, will have the following specific responsibilities: (i) preside at all meetings of the Board at which the Chairman of the Board is not present, including executive sessions of the independent directors; (ii) determine the need to appoint special committees of the Board; (iii) serve as liaison between the Chairman of the Board/Chief Executive Officer and the independent directors; (iv) approve Board and Board Committee meeting calendars; (v) establish agendas for Board meetings; (vi) approve information sent to the Board; (vii) call meetings of the independent directors, as necessary; (viii) when requested, consult and communicate with shareholders, employees and other relevant parties; (ix) work with the Chairman of the Board to recruit Board members; and (x) call special meetings of the Board. Additionally, the Lead Independent Director will serve as an ex officio member of each Board Committee on which s/he does not already serve as a voting member.

### **3) Nominations; Vacancies; Change of Status**

- (a) Nominations. Directors are elected to serve staggered terms by the shareholders at the annual meeting of shareholders. The Nominating and Governance Committee recommends nominees for directors to the Board and a majority of independent directors of the Board proposes a slate of nominees to the shareholders. By accepting the nomination or appointment, an individual is agreeing that s/he will tender a resignation in the event that s/he no longer fulfills the identified criteria or changes primary job responsibility after the nomination or appointment.
- (b) Vacancy. Whenever a vacancy occurs on the Board (whether through creation of a new position or the vacancy of an existing position), a majority of independent directors of the Board will select a director to fill such vacancy and serve for the remainder of the full term of the class of directors in which the vacancy occurs, based upon recommendations from the Nominating and Governance Committee. The Board, through its Nominating and Governance Committee, will consider the criteria outlined in Section 2(a) above deemed relevant in filling such vacancy to assure the appropriate composition and the desired attributes of the Board.
- (c) Change of Status. A director shall tender a resignation in the event that s/he no longer fulfills the criteria identified upon appointment or nomination. The Board, through the Nominating and Governance Committee, will consider the tendered resignation in light of the composition of the Board at that time and other appropriate factors. In addition, any director who changes the primary job responsibility held when appointed or nominated to the Board shall tender a letter of resignation to the Nominating and Governance Committee for consideration. The Nominating and Governance Committee shall consider the tendered resignation and make a recommendation to the full Board for action. It is not

the sense of the Board that in every instance a director who retires or changes from the position held when appointed or nominated should necessarily leave the Board. The Board will review the continued appropriateness of Board membership and determine whether to accept the resignation on a case-by-case basis.

#### **4) Independence of Directors**

- (a) General. A majority of the Board shall consist of independent, non-management directors who meet the criteria for independence as established by Nasdaq and the Securities and Exchange Commission (the “SEC”). There shall also be no more than two (2) management directors on the Board. Currently the Chief Executive Officer is the only management director. The Nominating and Governance Committee shall be responsible for reviewing the qualifications and independence of the directors, informing the Board of its findings and complying with applicable regulations regarding director independence.
- (b) Delegation. For relationships not specifically addressed by Nasdaq and the SEC, the Nominating and Governance Committee, after considering all of the relevant circumstances, may make a determination whether or not such relationship is material and whether the director may therefore be considered independent under the Nasdaq rules, and report its finding to the Board.

#### **5) Size of Board of Directors**

It is the sense of the Board that a board size of seven (7) to ten (10) directors is appropriate to address the important issues facing the Company while being small enough to encourage interaction and discussion.

#### **6) Meetings**

- (a) General. The Board will have at least four (4) regular meetings a year and special meetings as warranted. The Chairman of the Board and the Chief Executive Officer will set the agenda for each meeting. Any director may suggest that a matter be placed on the Board’s agenda by contacting the Chairman of the Board, Chief Executive Officer, or the Secretary.
- (b) Board Reports. Board materials related to agenda items will be provided to Board members sufficiently in advance of Board meetings to allow the directors to prepare for discussion of the items at the meeting.
- (c) Attendance. At the invitation of the Board, members of senior management may attend Board meetings or portions thereof for the purpose of participating in discussions. Generally, presentations of matters to be considered by the Board are made by the manager responsible for that area of the Company’s operations.
- (d) Executive Sessions. Executive sessions or meetings of independent directors without management present are held regularly (at least two (2) times a year) to review the report of the outside auditors, the criteria upon which the performance of the Chief Executive Officer and other senior managers is based, the performance of the Chief Executive Officer against such criteria, the compensation of the Chief Executive Officer, and other

senior managers and any other relevant matter. Meetings are held from time to time with the Chief Executive Officer for a general discussion of relevant subjects.

## 7) Board Committees

- (a) Establishment. The Board will have at all times an Audit Committee, a Compensation Committee, a Nominating and Governance Committee and an Executive Committee. If all members of the Executive Committee are independent, then it may serve as the Nominating and Governance Committee. Alternatively, if all members of the Executive Committee are not independent, the Executive Committee may delegate the Nominating and Governance Committee's responsibilities to a subcommittee comprised of independent directors who are members of the Executive Committee. The Executive Committee or such subcommittee, as the case may be, shall function under the Nominating and Governance Committee's charter when acting in that capacity. The members of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee will be independent directors under the criteria established by Nasdaq, any other exchange on which the Company's securities are traded, any other applicable rules or regulations and these Guidelines. Committee members will be appointed annually by the Board upon recommendation of the Nominating and Governance Committee with consideration of the desires of individual directors. It is the sense of the Board that consideration should be given to rotating committee members periodically, but the Board does not believe that rotation should be mandated as a policy.
- (b) Charters. Each committee will have its own charter. The charters will set forth the purposes, goals and responsibilities of the committees. The charters will also provide that each committee will annually evaluate its performance.
- (c) Meetings. The chairperson of each committee, in consultation with the committee members, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. At the beginning of the year each committee will establish a schedule of agenda subjects to be discussed during the year (to the degree these can be foreseen). The schedule for each committee will be furnished to all directors. During the year, the chairperson of each committee, in consultation with the appropriate members of the committee and management, will develop the agenda for each meeting.
- (d) Reporting. A report regarding each committee and copies of the minutes of any committee meeting will be provided to the full Board. In addition, the chairperson of each committee will report to the full Board regarding matters that should be brought to the attention of the Board.
- (e) External Resources. The Board and each committee have the power to hire independent legal, financial or other advisors, as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.
- (f) Additional Committees. The Board may, from time to time, establish or maintain additional committees as necessary or appropriate.

## **8) Director Access to Officers, Associates and Outside Advisors**

Directors have full and free access to officers and other associates of the Company and the Company's outside advisors. Any meetings or contacts that a director wishes to initiate may be arranged through the Chief Executive Officer or the Secretary or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company. It is the expectation of the Board that directors will keep the Chief Executive Officer informed of communications between a director and an officer or other associate of the Company, as appropriate.

## **9) Director Compensation**

The form and amount of director compensation will be determined by the Compensation Committee in accordance with the policies and guidelines set forth in its charter and applicable legal and regulatory guidelines. The Compensation Committee will conduct an annual review of director compensation. The Compensation Committee will consider that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

## **10) Director Orientation and Continuing Education**

Each new director must participate in the Company's Orientation Program. This orientation will include familiarizing new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Conduct, its principal officers, and its internal and independent auditors. In addition, the Orientation Program will include a visit to the principal office of the Company to meet with senior management regarding his or her legal duties as a director, and tours of Company facilities to understand better the Company's business and culture. All other directors are also invited to attend the Orientation Program. In addition, each director is expected to maintain the necessary level of expertise to perform his or her responsibilities as a director. The Company may, from time to time, offer continuing education programs to assist the directors in maintaining such level of expertise.

The Nominating and Governance Committee will oversee the Orientation Program and continuing education.

## **11) Stock Ownership Guidelines for Directors**

The Board expects all directors to display confidence in the Company by ownership of a meaningful amount of the Company's stock. As a result, each director is expected to own shares of the Company's stock with a fair market value equal to five (5) times the director's annual retainer. Each incumbent director will have five (5) years from the date of adoption of this Paragraph 11 (March 15, 2007) to meet this requirement and each new director will have five (5) years from the date of appointment or election to the Board to meet this requirement. Initial compliance will be measured at the five (5) year anniversary date of this Paragraph 11's adoption (for incumbent directors) or at the five (5) year anniversary date of the director's appointment or election (for new directors). Each director's continuing compliance with this Paragraph 11 will

be measured in the year s/he stands for re-election and will be considered as one of the criteria for nomination by the Nominating and Governance Committee.

## **12) Chief Executive Officer Evaluation and Management Session**

- (a) Chief Executive Officer Evaluation. The Compensation Committee will conduct an annual review of the Chief Executive Officer's performance, as set forth in its charter. The Compensation Committee will present the annual report to the entire Board for its review and comment. The Chief Executive Officer may not be present during voting or deliberations relating to his or her compensation.
- (b) Succession Planning. The Compensation Committee should make an annual report to the Board on succession planning. The entire Board will work with the Compensation Committee to suggest and evaluate potential successors to the Chief Executive Officer. The Chief Executive Officer should work with the Compensation Committee to provide his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

## **13) Annual Performance Evaluation**

The Board will conduct an annual self-evaluation to assist in determining whether it and its committees are functioning effectively. The Nominating and Governance Committee will solicit comments from all directors and report annually to the Board with an assessment of the Board's performance. This will be discussed with the full Board following the end of each fiscal year. The assessment will focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board could improve.

## **14) Mandatory Retirement Age**

The Board will establish and maintain a policy with regard to a mandatory retirement age for non-employment directors. The current policy provides that a person is not qualified to serve as a director unless he or she is less than seventy (70) years of age on the date of election. However, the Board believes that it is important to monitor overall Board performance and suitability. Upon the recommendation of the Nominating and Governance Committee, the Board may waive the effective date of mandatory retirement. This will allow the Board to retain the services of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations, and therefore, provide an increasing contribution to the Board as a whole.