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

# FORM 10-Q

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

For the quarterly period ended June 30, 2020

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) | (I.R.S. 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:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, No Par Value | CHDN | The Nasdaq Stock Market LLC |

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 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 ☒

The number of shares outstanding of registrant’s common stock at July 15, 2020 was 39,434,148 shares.

**CHURCHILL DOWNS INCORPORATED**
**INDEX TO QUARTERLY REPORT ON FORM 10-Q**
**For the Quarter Ended June 30, 2020**

**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CHURCHILL DOWNS INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**
**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions, except per common share data)* | **2020** | **2019** | **2020** | **2019** |
| **Net revenue:** | | | | |
| Churchill Downs | $ 23.3 | $ 182.2 | $ 46.8 | $ 203.2 |
| Online Wagering | 121.2 | 95.6 | 188.5 | 158.7 |
| Gaming | 37.3 | 177.6 | 184.9 | 346.4 |
| All Other | 3.3 | 22.0 | 17.8 | 34.5 |
| **Total net revenue** | 185.1 | 477.4 | 438.0 | 742.8 |
| **Operating expense:** | | | | |
| Churchill Downs | 31.1 | 73.6 | 57.7 | 97.0 |
| Online Wagering | 74.6 | 62.0 | 124.7 | 107.1 |
| Gaming | 45.6 | 133.2 | 170.4 | 258.2 |
| All Other | 11.6 | 21.5 | 32.7 | 37.0 |
| Selling, general and administrative expense | 22.4 | 30.1 | 46.5 | 55.0 |
| Impairment of intangible assets | — | — | 17.5 | — |
| Transaction expense, net | 0.2 | 0.6 | 0.5 | 4.1 |
| **Total operating expense** | 185.5 | 321.0 | 450.0 | 558.4 |
| **Operating (loss) income** | (0.4) | 156.4 | (12.0) | 184.4 |
| **Other income (expense):** | | | | |
| Interest expense, net | (20.3) | (19.4) | (39.6) | (33.1) |
| Equity in (loss) income of unconsolidated affiliates | (11.1) | 9.5 | (14.4) | 13.6 |
| Miscellaneous, net | 0.3 | 0.4 | 0.3 | 0.4 |
| **Total other expense** | (31.1) | (9.5) | (53.7) | (19.1) |
| (Loss) income from continuing operations before provision for income taxes | (31.5) | 146.9 | (65.7) | 165.3 |
| Income tax benefit (provision) | 7.9 | (38.6) | 19.5 | (45.1) |
| (Loss) income from continuing operations, net of tax | (23.6) | 108.3 | (46.2) | 120.2 |
| Loss from discontinued operations, net of tax | (95.2) | (1.2) | (96.1) | (1.5) |
| Net (loss) income | (118.8) | 107.1 | (142.3) | 118.7 |
| Net loss attributable to noncontrolling interest | — | — | (0.1) | — |
| **Net (loss) income and comprehensive (loss) income attributable to CDI** | $ (118.8) | $ 107.1 | $ (142.2) | $ 118.7 |
| **Net (loss) income per common share data - basic:** | | | | |
| Continuing operations | $ (0.59) | $ 2.69 | $ (1.16) | $ 2.99 |
| Discontinued operations | $ (2.41) | $ (0.03) | $ (2.43) | $ (0.04) |
| **Net (loss) income per common share data - basic** | $ (3.00) | $ 2.66 | $ (3.59) | $ 2.95 |
| **Net (loss) income per common share data - diluted:** | | | | |
| Continuing operations | $ (0.59) | $ 2.66 | $ (1.16) | $ 2.96 |
| Discontinued operations | $ (2.41) | $ (0.03) | $ (2.43) | $ (0.04) |
| **Net (loss) income per common share data - diluted** | $ (3.00) | $ 2.63 | $ (3.59) | $ 2.92 |
| Weighted average shares outstanding: | | | | |
| Basic | 39.5 | 40.1 | 39.6 | 40.3 |
| Diluted | 39.5 | 40.7 | 39.6 | 40.7 |

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

**CHURCHILL DOWNS INCORPORATED**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(Unaudited)**

| *(in millions)* | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 649.2 | $ 96.2 |
| Restricted cash | 49.8 | 46.3 |
| Accounts receivable, net | 47.5 | 37.3 |
| Income taxes receivable | 36.8 | 14.5 |
| Other current assets | 34.4 | 26.9 |
| Total current assets | 817.7 | 221.2 |
| Property and equipment, net | 1,043.2 | 937.3 |
| Investment in and advances to unconsolidated affiliates | 615.4 | 634.5 |
| Goodwill | 366.8 | 367.1 |
| Other intangible assets, net | 350.8 | 369.8 |
| Other assets | 22.1 | 21.1 |
| Total assets | $ 3,216.0 | $ 2,551.0 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 105.8 | $ 57.8 |
| Accrued expenses and other current liabilities | 164.6 | 173.4 |
| Current deferred revenue | 89.8 | 42.5 |
| Current maturities of long-term debt | 4.0 | 4.0 |
| Dividends payable | — | 23.5 |
| Current liabilities of discontinued operations | 124.0 | — |
| Total current liabilities | 488.2 | 301.2 |
| Long-term debt, net of current maturities and loan origination fees | 1,077.1 | 384.0 |
| Notes payable, net of debt issuance costs | 1,086.8 | 1,085.9 |
| Non-current deferred revenue | 15.1 | 16.7 |
| Deferred income taxes | 188.0 | 212.8 |
| Other liabilities | 38.1 | 39.4 |
| Total liabilities | 2,893.3 | 2,040.0 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock | — | — |
| Common stock | 6.1 | — |
| Retained earnings | 314.9 | 509.2 |
| Accumulated other comprehensive loss | (0.9) | (0.9) |
| Total Churchill Downs Incorporated shareholders' equity | 320.1 | 508.3 |
| Noncontrolling interest | 2.6 | 2.7 |
| Total shareholders' equity | 322.7 | 511.0 |
| Total liabilities and shareholders' equity | $ 3,216.0 | $ 2,551.0 |

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

**CHURCHILL DOWNS INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**(Unaudited)**

| *(in millions, except per common share data)* | Common Stock Shares | Common Stock Amount | Retained Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2019** | 39.7 | $ — | $ 509.2 | $ (0.9) | $ 2.7 | $ 511.0 |
| Net loss | | | (23.4) | | (0.1) | (23.5) |
| Repurchase of common stock | (0.3) | (4.3) | (23.6) | | | (27.9) |
| Cash settlement of stock awards | | | (12.7) | | | (12.7) |
| Taxes paid related to net share settlement of stock awards | | | (15.1) | | | (15.1) |
| Stock-based compensation | | 4.3 | | | | 4.3 |
| Adoption of ASC 326 | | | (0.5) | | | (0.5) |
| **Balance, March 31, 2020** | 39.4 | — | 433.9 | (0.9) | 2.6 | 435.6 |
| Net loss | | | (118.8) | | | (118.8) |
| Stock-based compensation | | 6.1 | | | | 6.1 |
| Other | | | (0.2) | | | (0.2) |
| **Balance, June 30, 2020** | 39.4 | $ 6.1 | $ 314.9 | $ (0.9) | $ 2.6 | $ 322.7 |

| *(in millions, except per common share data)* | Common Stock Shares | Common Stock Amount | Retained Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2018** | 40.4 | $ — | $ 474.2 | $ (0.9) | $ — | $ 473.3 |
| Net income | | | 11.6 | | | 11.6 |
| Issuance of common stock | 0.1 | — | | | | — |
| Repurchase of common stock | (0.3) | (4.7) | (20.3) | | | (25.0) |
| Taxes paid related to net share settlement of stock awards | (0.1) | — | (7.6) | | | (7.6) |
| Issuance of restricted stock awards, net of forfeitures | 0.1 | — | | | | — |
| Stock-based compensation | | 4.7 | | | | 4.7 |
| Adoption of ASC 842 | | | (0.3) | | | (0.3) |
| Other | | | 0.2 | | | 0.2 |
| **Balance, March 31, 2019** | 40.2 | — | 457.8 | (0.9) | — | 456.9 |
| Net income | | | 107.1 | | | 107.1 |
| Repurchase of common stock | (0.2) | (4.4) | (13.6) | | | (18.0) |
| Stock-based compensation | | 7.4 | | | | 7.4 |
| Other | | (0.1) | | | | (0.1) |
| **Balance, June 30, 2019** | 40.0 | $ 2.9 | $ 551.3 | $ (0.9) | $ — | $ 553.3 |

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

**CHURCHILL DOWNS INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | Six Months Ended June 30, | |
|---|---|---|
| *(in millions)* | **2020** | **2019** |
| **Cash flows from operating activities:** | | |
| Net (loss) income | $ (142.3) | $ 118.7 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 44.1 | 42.3 |
| Distributions from unconsolidated affiliates | 4.8 | 11.5 |
| Equity in loss (income) of unconsolidated affiliates | 14.4 | (13.6) |
| Stock-based compensation | 10.4 | 12.1 |
| Deferred income taxes | (24.8) | 12.1 |
| Impairment of intangible assets | 17.5 | — |
| Amortization of operating lease assets | 2.5 | 2.2 |
| Other | 1.8 | 1.1 |
| Changes in operating assets and liabilities, net of business acquisitions and dispositions: | | |
| Income taxes | (22.4) | 31.9 |
| Deferred revenue | 43.5 | (36.9) |
| Other assets and liabilities | 127.4 | 32.9 |
| Net cash provided by operating activities | 76.9 | 214.3 |
| **Cash flows from investing activities:** | | |
| Capital maintenance expenditures | (13.2) | (26.2) |
| Capital project expenditures | (118.1) | (32.6) |
| Acquisition of businesses, net of cash acquired | — | (172.1) |
| Investments in and advances to unconsolidated affiliates | — | (410.1) |
| Distributions of capital from unconsolidated affiliates | — | 8.1 |
| Acquisition of gaming licenses | — | (22.1) |
| Other | (0.5) | 1.1 |
| Net cash used in investing activities | (131.8) | (653.9) |
| **Cash flows from financing activities:** | | |
| Proceeds from borrowings under long-term debt obligations | 726.1 | 1,235.3 |
| Repayments of borrowings under long-term debt obligations | (33.4) | (637.3) |
| Payment of dividends | (23.4) | (22.2) |
| Repurchase of common stock | (28.4) | (45.5) |
| Cash settlement of stock awards | (12.7) | — |
| Taxes paid related to net share settlement of stock awards | (15.1) | (7.6) |
| Debt issuance costs | (1.7) | (8.6) |
| Other | — | (2.3) |
| Net cash provided by financing activities | 611.4 | 511.8 |
| **Net increase in cash, cash equivalents and restricted cash** | 556.5 | 72.2 |
| Cash, cash equivalents and restricted cash, beginning of period | 142.5 | 173.3 |
| **Cash, cash equivalents and restricted cash, end of period** | $ 699.0 | $ 245.5 |

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

**CHURCHILL DOWNS INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**
**(Unaudited)**

| | Six Months Ended June 30, | |
|---|---|---|
| *(in millions)* | **2020** | **2019** |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid during the period for: | | |
| Interest | $ 39.7 | $ 23.6 |
| Income taxes | 0.7 | 1.3 |
| **Schedule of non-cash investing and financing activities:** | | |
| Deferred tax liability assumed from equity investment | $ — | $ 103.2 |
| Property and equipment additions included in accounts payable and accrued expenses | 28.1 | 6.8 |

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

## 1. DESCRIPTION OF BUSINESS

### *Basis of Presentation*

The Churchill Downs Incorporated (the "Company", "we", "us", "our") financial statements are presented in conformity with the requirements of this Quarterly Report on Form 10-Q and consequently do not include all of the disclosures normally required by U.S. generally accepted accounting principles ("GAAP") or those normally made in our Annual Report on Form 10-K. The December 31, 2019 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP.

The following information is unaudited. All per share amounts assume dilution unless otherwise noted. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2019.

In the opinion of management, all adjustments necessary for a fair statement of this information have been made, and all such adjustments are of a normal, recurring nature.

We conduct our business through three reportable segments: Churchill Downs, Online Wagering, and Gaming. We aggregate our other businesses as well as certain corporate operations, and other immaterial joint ventures, in All Other. We report net revenue and operating expense associated with these reportable segments in the accompanying condensed consolidated statements of comprehensive income.

### *Impact of COVID-19 Pandemic*

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. Considerable uncertainty still surrounds the COVID-19 virus and its potential effects, and the extent of and effectiveness of responses taken on international, national and local levels. Measures taken to limit the impact of COVID-19, including shelter-in-place orders, social distancing measures, travel bans and restrictions, and business and government shutdowns, have resulted and continue to result in significant negative economic impacts in the United States and in relation to our business. The long-term impact of COVID-19 on the United States and world economies and continuing impact on our business remains uncertain, the duration and scope of which cannot currently be predicted.

In response to the measures taken to limit the impact of COVID-19 described above, and for the protection of our employees, customers, and communities, we temporarily suspended operations at our properties in March 2020. In May 2020, we began to reopen our properties with patron capacity limitations and gaming restrictions. We also implemented other initiatives to facilitate social distancing and enhanced cleaning, such as increased frequency of cleaning and sanitizing of all high-touch surfaces, mandatory temperature checks of all guests and team members upon entry and required training for all team members on safety protocols. Certain amenities at our properties have continued to be suspended, including all of our food buffets and valet services, and certain restaurants and food outlets. Below is a summary of the temporary closures or suspended operations and the current status of each property:

**Churchill Downs**

- Churchill Downs Racetrack conducted 27 spectator-free live racing days from May 16, 2020 through June 28, 2020. Churchill Downs Racetrack suspended simulcast operations on March 15, 2020 and such operations currently remain closed.
- Derby City Gaming temporarily suspended operations on March 15, 2020 and reopened on June 8, 2020. Derby City Gaming is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its gaming capacity to approximately 66%.

**Gaming**

*Wholly-Owned Properties*

- Calder Casino and Racing ("Calder") temporarily suspended operations on March 16, 2020 and reopened on June 12, 2020. Operations were temporarily suspended again on July 2, 2020 following a Miami-Dade Emergency Order issued by the county's mayor to close all entertainment venues in Miami-Dade county.
- Fair Grounds Slots, Fair Grounds Race Course and Video Services, LLC ("VSI") (collectively, "Fair Grounds and VSI"):
    - Fair Grounds Slots temporarily suspended operations on March 16, 2020 and reopened on June 13, 2020. Fair Grounds Slots is currently restricted to 25% patron capacity and has implemented social distancing measures, which has limited its gaming capacity to approximately 50%;

- ◦ Fair Grounds Race Course conducted spectator-free live racing from March 13, 2020 through March 21, 2020 and did not have any live race days during the second quarter of 2020; and
- ◦ VSI temporarily suspended operations on March 16, 2020 and reopened on May 18, 2020. VSI is currently restricted to 50% patron capacity and has implemented social distancing measures, which has limited its gaming capacity to approximately 70%.

- Harlow's Casino Resort and Spa ("Harlow's") temporarily suspended operations on March 16, 2020 and reopened on May 21, 2020. Harlow’s is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its slot gaming capacity to approximately 66% and its table games capacity to approximately 60%.
- Ocean Downs Casino and Racetrack ("Ocean Downs") temporarily suspended operations on March 15, 2020 and reopened on June 19, 2020. Ocean Downs is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its video lottery terminals ("VLTs") capacity to approximately 70% and its table game capacity to approximately 60%.
- Oxford Casino and Hotel ("Oxford") temporarily suspended operations on March 16, 2020 and reopened on July 9, 2020. Oxford is currently restricted to 200 persons on the gaming floor and only allows slot gaming.
- Presque Isle Downs and Casino ("Presque Isle") temporarily suspended operations on March 16, 2020 and reopened on June 26, 2020. Presque Isle is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its slot gaming capacity to approximately 60% and its table game capacity to approximately 60%.
- Riverwalk Casino Hotel ("Riverwalk") temporarily suspended operations on March 16, 2020 and reopened on May 21, 2020. Riverwalk is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its slot gaming capacity to approximately 66% and its table games capacity to approximately 60%.

*Managed Properties*

- Lady Luck Casino Nemacolin ("Lady Luck Nemacolin") temporarily suspended operations on March 16, 2020 and reopened on June 12, 2020. Lady Luck Nemacolin is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its slot gaming capacity to approximately 50% and its table game capacity to approximately 60%.

*Equity Investments*

- Rivers Casino Des Plaines ("Rivers Des Plaines") temporarily suspended operations on March 15, 2020 and reopened on July 1, 2020. Rivers Des Plaines is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its slot gaming capacity to approximately 66% and its table games capacity to approximately 60%.
- Miami Valley Gaming and Racing ("MVG") temporarily suspended operations on March 14, 2020 and reopened on June 19, 2020. MVG is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its VLT capacity to approximately 50%.

**All Other**

- Arlington International Racecourse ("Arlington") temporarily suspended operations of its off-track betting facilities ("OTBs") and simulcast operations on March 16, 2020. Four OTBs reopened on June 5, 2020 and the remaining OTBs reopened on various dates in July 2020. Arlington is scheduled to conduct 30 spectator-free live racing days from July 23, 2020 through September 26, 2020.
- Turfway Park conducted nine live racing days from March 12, 2020 through March 21, 2020 and five of these live racing days were run spectator-free. Live racing was canceled for the remaining three scheduled racing days in March 2020. Turfway Park did not have any race days scheduled in the second quarter of 2020.

On March 25, 2020, as a result of the temporary closures and suspended operations described above, the Company announced the temporary furlough of employees at its wholly-owned and managed gaming properties and certain racing operations. As the Company has reopened these properties, certain employees have returned to work while others remain on temporary furlough due to the capacity restrictions at these properties. The Company is providing health, dental, vision and life insurance benefits to furloughed employees through July 31, 2020.

The Company also implemented a temporary salary reduction for all remaining non-furloughed salaried employees based on a percentage that varies dependent upon the amount of each employee’s salary. The most senior level of executive management has received the largest salary decrease, based on both percentage and dollar amount. Salaries for non-furloughed employees will resume at the annual base salary beginning with their start of the employee's first full pay period subsequent to July 31, 2020.

There have been a number of other aspects of our business that have been impacted by COVID-19 during the three and six months ended June 30, 2020, including the following:

- The Company rescheduled the 146th Kentucky Oaks and Derby from May 1-2, 2020 to September 4-5, 2020. On June 24, 2020, the Company received approval from the Governor of Kentucky and state public health officials for its plan to allow limited spectators to attend the Kentucky Derby week events held September 1-5, 2020.
- Horse racing content for wagering on our TwinSpires business ("TwinSpires") decreased, although handle increased as our customers wagered more on the content that was available.
- Starting in mid-February 2020, U.S. and international sporting events were cancelled, which reduced sports betting content for our customers.

***Financial Status and Outlook***

The Company has temporarily reduced its planned maintenance and project capital expenditures for 2020 as a result of the temporary property and operations closures and has prioritized its capital investments based on the highest near-term return opportunities in order to maintain financial flexibility.

On March 16, 2020, we borrowed $675.4 million on our revolving credit facility (the "Revolver") pursuant to the Credit Agreement (defined below) to provide the Company with additional financial flexibility, which provided the Company with $649.2 million of cash and cash equivalents as of June 30, 2020.

On April 28, 2020, the Company entered into a Second Amendment to its Credit Agreement, which (i) provides for a financial covenant relief period through the date on which the Company delivers its quarterly financial statements and compliance certificate for the fiscal quarter ending June 30, 2021, subject to certain exceptions (the “Financial Covenant Relief Period”), (ii) amends the definition of “Consolidated EBITDA” in the Credit Agreement with respect to the calculation of Consolidated EBITDA for the first two fiscal quarters after the termination of the Financial Covenant Relief Period, (iii) extends certain deadlines and makes certain other amendments to the Company’s financial reporting obligations, (iv) places certain restrictions on restricted payments during the Financial Covenant Relief Period, and (v) amends the definitions of “Material Adverse Effect” and “License Revocation” in the Credit Agreement to take into consideration COVID-19.

During the Financial Covenant Relief Period, the Company will not be required to comply with the consolidated total secured net leverage ratio financial covenant and the interest coverage ratio financial covenant. The Company has agreed to a minimum liquidity financial covenant that requires the Company and its restricted subsidiaries to maintain liquidity of at least $150.0 million during the Financial Covenant Relief Period.

We continue to assess the situation at our properties and operations on a daily basis; however, we are unable to determine when we will be able to reopen any properties and / or operations that are closed or that may be closed in the future, the conditions upon which we will reopen, and when the current restrictions in place for our opened properties will be removed. Our third quarter of 2020 financial results will be materially impacted by the rescheduling of the Kentucky Oaks and Derby from the second quarter of 2020 to the third quarter of 2020, by the temporary suspended operations at certain properties, and continued restrictions at the properties that have reopened.

Based on our current projected operating cash flow needs, interest and debt repayments, and revised maintenance and project capital expenditures, we believe we have adequate cash to fund our business operations, meet all of our financial commitments, and invest in our prioritized key growth capital projects for well beyond the next twelve months.

***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").

***Acquisition of Certain Ownership Interests of Midwest Gaming Holdings, LLC***

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 Des Plaines in Des Plaines, Illinois to acquire approximately 42% of Midwest Gaming from affiliates and co-investors of Clairvest Group Inc. ("Clairvest") and members of High Plaines Gaming, LLC ("High Plaines"), 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 Plaines and Casino Investors. As a result of the Recapitalization, the Company's ownership of Midwest Gaming increased to 61.3%. High Plaines 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 Note 14, Investments in and Advances to Unconsolidated Affiliates, for further information on the Midwest Gaming transactions.

***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. On July 28, 2020, the Company's Board of Directors approved the final design plans for the HRM and grandstand facility at Turfway Park. The final plans reflect a project capital of $200.0 million, which includes the Turfway Park Acquisition costs and other previously approved capital. The 155,000 square foot facility will include a grandstand, sports bar, food offerings, and up to 1,200 historical racing machines. The Turfway Park facility is expected to open in the fourth quarter of 2021.

Refer to Note 4, Acquisitions, for further information on the Turfway Park Acquisition.

The Company has announced plans and has begun to invest up to $38.4 million for an extension of Turfway Park, to be located in Newport, Kentucky, which will include a simulcast area including a separate VIP simulcast room, a 17,000 square foot gaming floor with 500 historical racing machines and a feature bar. The Company plans to open the extension in the fourth quarter of 2020.

***Seasonality***

*Churchill Downs*

Due to the seasonal nature of our live racing business at Churchill Downs Racetrack, revenue and operating results for any interim quarter are generally not indicative of the revenues and operating results for the year and may not be comparable with results for the corresponding period of the previous year. Historically, the majority of our live racing revenue occurs during the second quarter with the running of the Kentucky Derby and Kentucky Oaks. Due to the COVID-19 pandemic, the Company rescheduled the 146th Kentucky Oaks and Kentucky Derby from May 1, 2020 and May 2, 2020 to September 4, 2020 and September 5, 2020, respectively.

*Online Wagering*

Due to the seasonal nature of the racing business, revenue and operating results for any interim quarter are generally not indicative of the revenues and operating results for the year and may not be comparable with results for the corresponding period of the previous year. Historically, our revenue is higher in the second quarter with the running of the Kentucky Derby and the Kentucky Oaks. Due to the COVID-19 pandemic, the Company rescheduled the 146th Kentucky Oaks and Kentucky Derby from May 1, 2020 and May 2, 2020 to September 4, 2020 and September 5, 2020, respectively.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

*Recent Accounting Pronouncement - Adopted on January 1, 2020*

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments - Credit Losses, ("ASC 326") 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. We adopted ASC 326 on January 1, 2020 using the modified retrospective approach. We recognized the cumulative effect of applying ASC 326 as an opening balance sheet adjustment at January 1, 2020. The comparative information has not been retrospectively adjusted and continues to be reported under the accounting standards in effect for those periods. The adoption of ASC 326 did not have a material impact on our business and therefore we have not included the disclosure requirements of ASC 326 in this Quarterly Report on Form 10-Q.

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. We adopted this guidance on January 1, 2020. The new guidance did not result in a cumulative adjustment upon adoption and there was no impairment recognized under the new guidance for the three or six months ended June 30, 2020.

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. We adopted this guidance on January 1, 2020. This guidance is consistent with our current accounting policies, and therefore our adoption of this guidance did not have a material impact on our business.

## 3. SIGNIFICANT ACCOUNTING POLICIES

Except for the accounting policy for the allowance for doubtful accounts receivable described below, which was updated as a result of our adoption of ASC 326 on January 1, 2020, as described in Note 2, Recent Accounting Pronouncements, there have been no changes to our significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2019.

***Allowance for Doubtful Accounts Receivable***

Upon our adoption of ASC 326 on January 1, 2020, we maintained an allowance for doubtful accounts for current expected credit losses on our financial assets measured at amortized cost which are primarily included in accounts receivable, net in the accompanying condensed consolidated balance sheets. The Company evaluates current expected credit losses on a collective (pool) basis when similar risk characteristics exist. Write-offs are recognized when the Company concludes that all or a portion of a financial asset is no longer collectible. Any subsequent recovery is recognized when it occurs.

## 4. ACQUISITIONS

*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 $0.9 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 $2.7 million, and current liabilities of $2.6 million.

## 5. 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. ("Aristocrat"), 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. Aristocrat paid 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 the related Big Fish Transaction meet the criteria for discontinued operation presentation. The condensed consolidated statements of comprehensive income and the notes to financial statements reflect Big Fish Games as discontinued operations for all periods presented. Unless otherwise specified, disclosures in these condensed consolidated financial statements reflect continuing operations only. The condensed consolidated statements of cash flows include both continuing and discontinued operations.

***Kater and Thimmegowda Settlement***

On May 22, 2020, we entered into an agreement in principle to settle Cheryl Kater v. Churchill Downs Incorporated ("Kater litigation") and Manasa Thimmegowda v. Big Fish Games, Inc. (the “Thimmegowda litigation”). The agreement in principle remains contingent on final court approval by the U.S. District Court for the Western District of Washington (the “District Court”). Under the terms of the settlement, which will take effect only after final court approval of the proposed class settlement: (i) a total of $155.0 million will be paid into a settlement fund. CDI will pay $124.0 million pre-tax of the settlement from its available cash; Aristocrat will pay $31.0 million pre-tax of the settlement; (ii) all members of the nationwide settlement class who do not exclude themselves will release all claims relating to the subject matter of the lawsuits; and (iii) Aristocrat has agreed to specifically release CDI of any and all indemnification obligations under the Stock Purchase Agreement arising from or related to the Kater and Thimmegowda litigations, including any claims of diminution of value of Big Fish Games and any claims by any person who opts out of the proposed class settlement. The $124.0 million pre-tax settlement related to the Company is included in loss from discontinued operations, net of tax in the accompanying condensed consolidated statements of comprehensive (loss) income for the three and six months ended June 30, 2020, and on a pre-tax basis in current liabilities of discontinued operations in the accompanying condensed consolidated balance sheets at June 30, 2020.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | **2020** | **2019** | **2020** | **2019** |
| Net revenue | $ — | $ — | $ — | $ — |
| Selling, general and administrative expense | 0.3 | 1.6 | 1.5 | 2.0 |
| Legal settlement | 124.0 | — | 124.0 | — |
| Loss from discontinued operations before provision for income taxes | (124.3) | (1.6) | (125.5) | (2.0) |
| Income tax benefit | 29.1 | 0.4 | 29.4 | 0.5 |
| **Loss from discontinued operations, net of tax** | $ (95.2) | $ (1.2) | $ (96.1) | $ (1.5) |

## 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill, by segment, is comprised of the following:

| *(in millions)* | Churchill Downs | Online Wagering | Gaming | All Other | Total |
|---|---|---|---|---|---|
| Balances as of December 31, 2019 | $ 49.7 | $ 148.2 | $ 165.2 | $ 4.0 | $ 367.1 |
| Adjustments | — | — | — | (0.3) | (0.3) |
| Balances as of June 30, 2020 | $ 49.7 | $ 148.2 | $ 165.2 | $ 3.7 | $ 366.8 |

We performed our annual goodwill impairment analysis as of April 1, 2020. We assessed goodwill for impairment by performing qualitative or quantitative analyses for each reporting unit. Based on the results of these analyses, no goodwill impairments were identified in connection with our annual impairment testing. During the second quarter we recorded an immaterial measurement period adjustment for the Turfway Park acquisition that impacted the All Other goodwill balance.

Other intangible assets are comprised of the following:

| | June 30, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| *(in millions)* | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Definite-lived intangible assets | $ 31.7 | $ (16.9) | $ 14.8 | $ 31.3 | $ (15.0) | $ 16.3 |
| Indefinite-lived intangible assets | | | 336.0 | | | 353.5 |
| Total | | | $ 350.8 | | | $ 369.8 |

Refer to Note 7, Asset Impairment, for information regarding intangible asset impairments recognized during the first quarter of 2020.

We performed our annual indefinite-lived intangible assets impairment analysis as of April 1, 2020. We assessed our indefinite-lived intangible assets for impairment by performing qualitative or quantitative analyses for each asset. Based on the results of these analyses, no indefinite-lived intangible asset impairments were identified in connection with our annual impairment testing.

## 7. ASSET IMPAIRMENT

During the quarter ended March 31, 2020, the Company evaluated whether events or circumstances changed that would indicate it is more likely than not that any of its intangible assets, goodwill, or property and equipment, were impaired ("Trigger Event"), or if there were any other than temporary impairments of our equity investments. Factors considered in this evaluation included, among other things, the amount of the fair value over carrying value from the annual impairment testing performed as of April 1, 2019, changes in carrying values, changes in discount rates, and the impact of temporary property closures due to the COVID-19 pandemic on cash flows. Based on the Company's evaluation, the Company concluded that a Trigger Event occurred related to the Presque Isle gaming rights, trademark, and the reporting unit's goodwill due to the impact and uncertainty of the COVID-19 pandemic and the recent closing of the Presque Isle Transaction in 2019.

The initial fair value of Presque Isle gaming rights in the first quarter of 2019 was determined using the Greenfield Method, which is an income approach methodology that calculates the present value based on a projected cash flow stream. This method assumes that the Presque Isle gaming rights provide the opportunity to develop a casino and online wagering platform 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, operating expenses, start-up costs, and discount rate were the primary inputs in the valuation.

Based on the Trigger Event, the Company updated the discount rate to reflect the increased uncertainty of the cash flows and updated the projected cash flow stream. As a result, the Company recognized an impairment of $15.0 million in first quarter of 2020 for its Presque Isle gaming rights ($12.5 million related to the Gaming segment and $2.5 million related to the Online Wagering segment).

The Presque Isle trademark was initially valued in first quarter of 2019 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.

Based on the Trigger Event, the Company updated the discount rate to reflect the increased uncertainty of the cash flows and updated projected cash flow stream. As a result, the Company recognized an impairment of $2.5 million in first quarter of 2020 for its Presque Isle trademark.

The fair value of the Presque Isle reporting unit's goodwill was 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.

In accordance with Accounting Standards Codification 350, Intangibles - Goodwill and Other, the Company performed its impairment testing of the Presque Isle gaming rights and trademark prior to testing Presque Isle goodwill. Based on the Trigger Event, the Company updated the discount rate to reflect the increased uncertainty of the cash flows and updated project cash flow stream. As a result, the Company did not recognize an impairment for Presque Isle goodwill in the first quarter of 2020 because the fair value exceeded the carrying value.

## 8. INCOME TAXES

The Company’s effective income tax rate for the three and six months ended June 30, 2020 reflects a tax benefit on our actual pretax loss, while the annual estimated effective tax rate reflects tax expense on our estimated annual pretax income.

The Company’s effective income tax rate for the three months ended June 30, 2020 was higher than the U.S. federal statutory rate of 21.0% primarily resulting from nondeductible officer's compensation, state income taxes and the establishment of a valuation allowance against current year state income tax losses in certain jurisdictions that do not require combined reporting. The Company's annual estimated effective tax rate includes a tax benefit from a current year federal taxable loss which will be carried back to a pre-2018 tax year, reducing the effective income tax rate applied to the pre-tax loss in the second quarter of 2020.

The effective income tax rate for the six months ended June 30, 2020 was higher than the U.S. federal statutory rate of 21.0% primarily resulting from state income taxes, nondeductible officer's compensation and year-to-date tax deductions from vesting of stock awards in excess of book deductions. The Company's annual estimated effective tax rate includes a tax benefit from a current year federal taxable loss which will be carried back to a pre-2018 tax year, reducing the effective income tax rate applied to the pre-tax loss in the six months ended June 30, 2020.

The Company's effective income tax rate for the three months ended June 30, 2019 was higher than the U.S. federal statutory rate of 21.0%, primarily due to state income taxes and certain expenses that are not deductible for the purposes of income taxes. This expense was partially offset by tax benefits resulting from tax deductions from vesting of stock awards in excess of book deductions.

The Company's effective income tax rate for the six months ended June 30, 2019 was higher than the U.S. federal statutory rate of 21.0% primarily due to state income taxes, as well as $2.2 million of future income tax expenses recognized 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 year quarter, and certain expenses that are not deductible for the purposes of income taxes. This expense was partially offset by tax benefits resulting from tax deductions from vesting of stock awards in excess of book deductions.

## 9. SHAREHOLDERS’ EQUITY

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 six months ended June 30, 2020, we repurchased 235,590 shares of our common stock under the October 2018 stock repurchase program at an aggregate purchase price of $27.9 million, based on trade date. We had approximately $147.1 million of repurchase authority remaining under this program at June 30, 2020, based on trade date. There were no repurchases of common stock under our repurchase program for the three months ended June 30, 2020.

## 10. STOCK-BASED COMPENSATION PLANS

We have stock-based employee compensation plans with awards outstanding under the Churchill Downs Incorporated 2016 Omnibus Stock Incentive Plan (the "2016 Plan") and the Executive Long-Term Incentive Compensation Plan, which was adopted pursuant to the 2016 Plan. Our total stock-based compensation expense, which includes expenses related to restricted stock awards ("RSAs"), restricted stock unit awards ("RSUs"), performance share unit awards ("PSUs"), and stock options associated with our employee stock purchase plan was $6.1 million for the three months ended June 30, 2020 and $7.4 million for the three months ended June 30, 2019. Stock-based compensation expense was $10.4 million for the six months ended June 30, 2020 and $12.1 million for the six months ended June 30, 2019.

During the six months ended June 30, 2020, the Company awarded RSUs to employees, RSUs and PSUs to certain named executive officers ("NEOs"), and RSUs to directors. The vesting criteria for the PSU awards granted in 2020 were based on a three-year service period with two performance conditions and a market condition related to relative total shareholder return ("TSR") consistent with prior year grants. The total compensation cost we will recognize under the PSUs will be determined using the Monte Carlo valuation methodology, which factors in the value of the TSR market condition when determining the grant date fair value of the PSU. Compensation cost for each PSU is recognized during the performance and service period based on the probable achievement of the two performance criteria. The PSUs are converted into shares of our common stock at the time the PSU award value is finalized.

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

A summary of the RSUs and PSUs granted during 2020 is presented below (units in thousands):

| Grant Year | Award Type | Number of Units Awarded | Vesting Terms |
|---|---|---|---|
| 2020 | RSU | 44 | Vest equally over three service periods ending in 2021, 2022, and 2023 |
| 2020 | RSU | 37 | Vest equally over three service periods ending in 2020, 2021, and 2022 |
| 2020 | PSU | 37 | Three year performance and service period ending in 2022 |
| 2020 | RSU | 12 | One year service period ending in 2021 |

## 11. DEBT

***Credit Agreement***

On March 16, 2020, the Company entered into the First Amendment (the “First Amendment”) to its Credit Agreement (as amended, the “Credit Agreement”), dated December 27, 2017, among the Company, the subsidiary guarantors party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the lenders and other financial institutions party thereto.

The First Amendment extends the maturity for the Company’s Revolver to at least September 27, 2024, which is 91 days prior to the latest maturity date of the Company’s term loan facility on December 27, 2024. Previously, the maturity date of the revolving credit facility was December 27, 2022.

The interest rates applicable to the Company’s borrowings under the Credit Agreement are LIBOR-based plus a spread, determined by the Company’s consolidated total net leverage ratio. The First Amendment, among other things, lowers the upper limit of the applied spreads with respect to revolving loans from 2.25% to 1.75% and for commitment fees with respect thereto from 0.35% to 0.30%, and generally offers a reduced pricing schedule for outstanding borrowings and commitment fees with respect to the Revolver across all other leverage pricing levels. The interest rates applicable to borrowings under the facilities are LIBOR-based plus a spread, determined by the Company’s consolidated total net leverage ratio. The First Amendment does not alter the Company’s borrowing capacity. The Company capitalized $2.0 million of debt issuance costs associated with the First Amendment which are amortized as interest expense over the remaining duration of the Revolver.

On March 16, 2020, we borrowed $675.4 million on our Revolver to provide the Company with additional financial flexibility, which provided the Company with $649.2 million of cash and cash equivalents as of June 30, 2020.

On April 28, 2020, the Company entered into the Second Amendment to its Credit Agreement, which (i) provides for a financial covenant relief period through the date on which the Company delivers its quarterly financial statements and compliance certificate for the fiscal quarter ending June 30, 2021, subject to certain exceptions (the “Financial Covenant Relief Period”), (ii) amends the definition of “Consolidated EBITDA” in the Credit Agreement with respect to the calculation of

Consolidated EBITDA for the first two fiscal quarters after the termination of the Financial Covenant Relief Period, (iii) extends certain deadlines and makes certain other amendments to the Company's financial reporting obligations, (iv) places certain restrictions on restricted payments during the Financial Covenant Relief Period, and (v) amends the definitions of "Material Adverse Effect" and "License Revocation" in the Credit Agreement to take into consideration COVID-19.

During the Financial Covenant Relief Period, the Company will not be required to comply with the consolidated total secured net leverage ratio financial covenant and the interest coverage ratio financial covenant. The Company has agreed to a minimum liquidity financial covenant that requires the Company and its restricted subsidiaries to maintain liquidity of at least $150.0 million during the Financial Covenant Relief Period.

## 12. REVENUE FROM CONTRACTS WITH CUSTOMERS

***Performance Obligations***

As of June 30, 2020, the Churchill Downs segment had remaining performance obligations, on contracts with a duration greater than one year, with an aggregate transaction price of $162.7 million. The revenue we expect to recognize on these remaining performance obligations is $38.1 million for the remainder of 2020, $39.1 million in 2021, $32.6 million in 2022, and the remainder thereafter.

As of June 30, 2020, our remaining performance obligations in segments other than Churchill Downs were not material.

***Contract Assets and Contract Liabilities***

As of June 30, 2020 and December 31, 2019, contract assets were not material.

As of June 30, 2020 and December 31, 2019, contract liabilities were $108.8 million and $63.1 million, respectively, which are included in current deferred revenue, non-current deferred revenue, and accrued expense in the accompanying condensed consolidated balance sheets. Contract liabilities primarily relate to the Churchill Downs segment and the increase was primarily due to cash payments received for unfulfilled performance obligations. We recognized $0.3 million of revenue during the three months ended June 30, 2020 and $4.1 million of revenue during the six months ended June 30, 2020 that was included in the contract liabilities balance at December 31, 2019. We recognized $45.8 million of revenue during the three months ended June 30, 2019 and $48.5 million of revenue during the six months ended June 30, 2019 that was included in the contract liabilities balance at December 31, 2018.

***Disaggregation of Revenue***

In Note 18, 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 TwinSpires 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. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

| *(in millions)* | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Account wagering deposits liability | $ 38.5 | $ 28.9 |
| Accrued interest | 19.5 | 19.7 |
| Purses payable | 18.9 | 19.9 |
| Accrued salaries and related benefits | 8.5 | 29.2 |
| Other | 79.2 | 75.7 |
| Total | $ 164.6 | $ 173.4 |

## 14. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

***Midwest Gaming***

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 Plaines and Casino Investors. As a result of the Recapitalization, the Company's ownership of Midwest Gaming increased to 61.3%. High Plaines 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 Plaines 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. As of June 30, 2020, the net aggregate basis difference between the Company’s investment in Midwest Gaming and the amounts of the underlying equity in net assets was $833.8 million.

***Summarized Financial Results for our Unconsolidated Affiliates***

Summarized below are the financial results for our unconsolidated affiliates. The summarized income statement information for the three and six months ended June 30, 2020 and 2019, respectively, and summarized balance sheet information as of June 30, 2020 and 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 ventures.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions)* | 2020 | 2019 | 2020 | 2019 |
| Net revenue | $ 6.8 | $ 166.2 | $ 144.6 | $ 255.7 |
| Operating and SG&A expense | 7.2 | 119.1 | 108.0 | 180.1 |
| Depreciation and amortization | 4.1 | 3.3 | 8.3 | 5.5 |
| Total operating expense | 11.3 | 122.4 | 116.3 | 185.6 |
| **Operating (loss) income** | (4.5) | 43.8 | 28.3 | 70.1 |
| Interest and other, net | (13.4) | (25.3) | (49.2) | (42.3) |
| **Net (loss) income** | $ (17.9) | $ 18.5 | $ (20.9) | $ 27.8 |

| *(in millions)* | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 98.3 | $ 64.0 |
| Property and equipment, net | 271.2 | 256.1 |
| Other assets, net | 246.1 | 240.1 |
| Total assets | $ 615.6 | $ 560.2 |
| **Liabilities and Members' Deficit** | | |
| Current liabilities | $ 91.3 | $ 73.3 |
| Long-term debt | 790.1 | 745.0 |
| Other liabilities | 43.9 | 20.6 |
| Members' deficit | (309.7) | (278.7) |
| Total liabilities and members' deficit | $ 615.6 | $ 560.2 |

## 15. 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 4.75% Senior Notes due 2028 (the "2028 Senior Notes") and 5.500% Senior Notes due 2027 ("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 values of the Company's $400.0 million Senior Secured Term Loan B (the "Term Loan B") and Revolver under the Credit Agreement approximate the gross carrying value of the variable rate debt and as such are Level 2 measurements.

The carrying amounts and estimated fair values by input level of the Company's financial instruments are as follows:

| | June 30, 2020 | | | | |
|---|---|---|---|---|---|
| *(in millions)* | **Carrying Amount** | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| Financial assets: | | | | | |
| Restricted cash | $ 49.8 | $ 49.8 | $ 49.8 | $ — | $ — |
| Financial liabilities: | | | | | |
| Term Loan B | 386.5 | 390.0 | — | 390.0 | — |
| Revolver | 694.6 | 694.6 | — | 694.6 | — |
| 2027 Senior Notes | 592.6 | 584.8 | — | 584.8 | — |
| 2028 Senior Notes | 494.2 | 480.3 | — | 480.3 | — |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| *(in millions)* | **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 | — |

## 16. 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.

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.

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.

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 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.

### *Kater and Thimmegowda Settlement*

Refer to Note 5, Discontinued Operations, for further discussion of the Kater and Thimmegowda settlement.

### *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 was accrued for in the third quarter of 2019 and is included in accrued expense and other current liabilities in our accompanying condensed consolidated balance sheets at June 30, 2020 and December 31, 2019.

### 17. NET INCOME PER COMMON SHARE COMPUTATIONS

The following is a reconciliation of the numerator and denominator of the net income per common share computations:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(in millions, except per share data)* | 2020 | 2019 | 2020 | 2019 |
| Numerator for basic net (loss) income per common share: | | | | |
| Net (loss) income from continuing operations | $ (23.6) | $ 108.3 | $ (46.2) | $ 120.2 |
| Net loss attributable to noncontrolling interest | — | — | (0.1) | — |
| Net (loss) income from continuing operations, net of loss attributable to noncontrolling interests | (23.6) | 108.3 | (46.1) | 120.2 |
| Net loss from discontinued operations | (95.2) | (1.2) | (96.1) | (1.5) |
| Numerator for basic net (loss) income per common share | $ (118.8) | $ 107.1 | $ (142.2) | $ 118.7 |
| Numerator for diluted net (loss) income from continuing operations per common share | $ (23.6) | $ 108.3 | $ (46.1) | $ 120.2 |
| Numerator for diluted net (loss) income per common share | $ (118.8) | $ 107.1 | $ (142.2) | $ 118.7 |
| | | | | |
| Denominator for net (loss) income per common share: | | | | |
| Basic | 39.5 | 40.1 | 39.6 | 40.3 |
| Plus dilutive effect of stock awards | — | 0.6 | — | 0.4 |
| Diluted | 39.5 | 40.7 | 39.6 | 40.7 |
| | | | | |
| Net (loss) income per common share data: | | | | |
| Basic | | | | |
| Continuing operations | $ (0.59) | $ 2.69 | $ (1.16) | $ 2.99 |
| Discontinued operations | $ (2.41) | $ (0.03) | $ (2.43) | $ (0.04) |
| Net (loss) income per common share - basic | $ (3.00) | $ 2.66 | $ (3.59) | $ 2.95 |
| | | | | |
| Diluted | | | | |
| Continuing operations | $ (0.59) | $ 2.66 | $ (1.16) | $ 2.96 |
| Discontinued operations | $ (2.41) | $ (0.03) | $ (2.43) | $ (0.04) |
| Net (loss) income per common share - diluted | $ (3.00) | $ 2.63 | $ (3.59) | $ 2.92 |
| | | | | |
| Anti-dilutive stock awards excluded from the calculation of diluted shares | 0.5 | — | 0.5 | — |

## 18. SEGMENT INFORMATION

We manage our operations through three reportable segments:

- ***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 a historical racing machine facility that operates under the Churchill Downs pari-mutuel racing license at its ancillary 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 TwinSpires and the online sports betting and iGaming business.

  TwinSpires operates our online horse racing wagering business on TwinSpires.com, BetAmerica.com and other Company platforms; facilitates high dollar wagering by international customers (Velocity); and provides the platform for horse racing statistical data generated by our information business that provides data and processing services to the equine industry (Brisnet).

  Our sports betting and iGaming business includes the online BetAmerica sports betting and casino gaming operations.

- ***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
  - Fair Grounds and VSI
  - Harlow’s
  - Lady Luck Nemacolin management agreement
  - Ocean Downs
  - Oxford
  - Presque Isle
  - 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, the parent company of Rivers Des Plaines
  - 50% equity investment in 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
- United Tote
- Oak Grove Racing and Gaming
- 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 condensed consolidated statements of comprehensive income. 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;
  - 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;
- 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 condensed consolidated statements of comprehensive income.

The tables below present net revenue from external customers and intercompany revenue from each of our segments, net revenue from external customers for each group of similar services, Adjusted EBITDA by segment, and a reconciliation of comprehensive (loss) income to Adjusted EBITDA:

| *(in millions)* | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 |
|---|---|---|---|---|
| **Net revenue from external customers:** | | | | |
| **Churchill Downs:** | | | | |
| Churchill Downs Racetrack | $ 15.6 | $ 161.0 | $ 17.5 | $ 163.3 |
| Derby City Gaming | 7.7 | 21.2 | 29.3 | 39.9 |
| Total Churchill Downs | 23.3 | 182.2 | 46.8 | 203.2 |
| **Online Wagering:** | | | | |
| TwinSpires | 119.9 | 95.6 | 186.5 | 158.6 |
| Online Sports Betting and iGaming | 1.3 | — | 2.0 | 0.1 |
| Total Online Wagering | 121.2 | 95.6 | 188.5 | 158.7 |
| **Gaming:** | | | | |
| Fair Grounds and VSI | 11.1 | 30.9 | 42.7 | 68.4 |
| Presque Isle | 2.0 | 37.1 | 29.6 | 66.8 |
| Calder | 5.7 | 25.6 | 27.5 | 51.0 |
| Oxford | 0.1 | 26.3 | 20.2 | 50.2 |
| Ocean Downs | 3.1 | 21.9 | 17.9 | 40.3 |
| Riverwalk | 7.4 | 14.2 | 20.1 | 30.5 |
| Harlow’s | 5.6 | 13.3 | 17.3 | 28.6 |
| Lady Luck Nemacolin | 2.3 | 8.3 | 9.6 | 10.6 |
| Total Gaming | 37.3 | 177.6 | 184.9 | 346.4 |
| All Other | 3.3 | 22.0 | 17.8 | 34.5 |
| Net revenue from external customers | $ 185.1 | $ 477.4 | $ 438.0 | $ 742.8 |

| *(in millions)* | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 |
|---|---|---|---|---|
| **Intercompany net revenue:** | | | | |
| Churchill Downs | $ 6.9 | $ 10.9 | $ 7.2 | $ 11.3 |
| Online Wagering | 0.4 | 0.4 | 0.8 | 0.7 |
| Gaming | — | 0.2 | 1.5 | 1.5 |
| All Other | 2.9 | 3.4 | 5.9 | 5.6 |
| Eliminations | (10.2) | (14.9) | (15.4) | (19.1) |
| Intercompany net revenue | $ — | $ — | $ — | $ — |

| *(in millions)* | Three Months Ended June 30, 2020 Churchill Downs | Online Wagering | Gaming | Total Segments | All Other | Total |
|---|---|---|---|---|---|---|
| **Net revenue from external customers** | | | | | | |
| Pari-mutuel: | | | | | | |
| Live and simulcast racing | $ 14.9 | $ 115.6 | $ 1.7 | $ 132.2 | $ 0.8 | $ 133.0 |
| Historical racing[(a)] | 7.3 | — | — | 7.3 | — | 7.3 |
| Racing event-related services | 0.5 | — | 0.7 | 1.2 | — | 1.2 |
| Gaming[(a)] | — | 1.5 | 33.3 | 34.8 | — | 34.8 |
| Other[(a)] | 0.6 | 4.1 | 1.6 | 6.3 | 2.5 | 8.8 |
| Total | $ 23.3 | $ 121.2 | $ 37.3 | $ 181.8 | $ 3.3 | $ 185.1 |

| *(in millions)* | Three Months Ended June 30, 2019 Churchill Downs | Online Wagering | Gaming | Total Segments | All Other | Total |
|---|---|---|---|---|---|---|
| **Net revenue from external customers** | | | | | | |
| Pari-mutuel: | | | | | | |
| Live and simulcast racing | $ 41.3 | $ 91.1 | $ 5.5 | $ 137.9 | $ 12.2 | $ 150.1 |
| Historical racing[(a)] | 19.7 | — | — | 19.7 | — | 19.7 |
| Racing event-related services | 113.4 | — | 0.8 | 114.2 | 2.2 | 116.4 |
| Gaming[(a)] | — | — | 150.2 | 150.2 | — | 150.2 |
| Other[(a)] | 7.8 | 4.5 | 21.1 | 33.4 | 7.6 | 41.0 |
| Total | $ 182.2 | $ 95.6 | $ 177.6 | $ 455.4 | $ 22.0 | $ 477.4 |

(a) Food and beverage, hotel, and other services furnished to customers for free as an inducement to gamble or through the redemption of our customers' loyalty points are recorded at their estimated standalone selling prices in Other revenue with a corresponding offset recorded as a reduction in historical pari-mutuel revenue for HRMs or gaming revenue for our casino properties. These amounts were $0.8 million for the three months ended June 30, 2020 and $7.9 million for the three months ended June 30, 2019.

| *(in millions)* | Six Months Ended June 30, 2020 Churchill Downs | Online Wagering | Gaming | Total Segments | All Other | Total |
|---|---|---|---|---|---|---|
| **Net revenue from external customers** | | | | | | |
| Pari-mutuel: | | | | | | |
| Live and simulcast racing | $ 15.9 | $ 179.5 | $ 11.6 | $ 207.0 | $ 10.7 | $ 217.7 |
| Historical racing[(b)] | 27.7 | — | — | 27.7 | — | 27.7 |
| Racing event-related services | 0.5 | — | 2.0 | 2.5 | 0.1 | 2.6 |
| Gaming[(b)] | — | 2.2 | 154.9 | 157.1 | — | 157.1 |
| Other[(b)] | 2.7 | 6.8 | 16.4 | 25.9 | 7.0 | 32.9 |
| Total | $ 46.8 | $ 188.5 | $ 184.9 | $ 420.2 | $ 17.8 | $ 438.0 |

| *(in millions)* | Six Months Ended June 30, 2019 Churchill Downs | Online Wagering | Gaming | Total Segments | All Other | Total |
|---|---|---|---|---|---|---|
| **Net revenue from external customers** | | | | | | |
| Pari-mutuel: | | | | | | |
| Live and simulcast racing | $ 42.7 | $ 151.6 | $ 17.7 | $ 212.0 | $ 19.7 | $ 231.7 |
| Historical racing[(b)] | 37.4 | — | — | 37.4 | — | 37.4 |
| Racing event-related services | 113.4 | — | 2.3 | 115.7 | 2.2 | 117.9 |
| Gaming[(b)] | — | 0.1 | 289.2 | 289.3 | — | 289.3 |
| Other[(b)] | 9.7 | 7.0 | 37.2 | 53.9 | 12.6 | 66.5 |
| Total | $ 203.2 | $ 158.7 | $ 346.4 | $ 708.3 | $ 34.5 | $ 742.8 |

(b) Food and beverage, hotel, and other services furnished to customers for free as an inducement to gamble or through the redemption of our customers' loyalty points are recorded at their estimated standalone selling prices in Other revenue with a corresponding offset recorded as a reduction in historical pari-mutuel revenue for HRMs or gaming revenue for our casino properties. These amounts were $8.4 million for the six months ended June 30, 2020 and $15.5 million for the six months ended June 30, 2019.

Adjusted EBITDA by segment is comprised of the following:

| | Three Months Ended June 30, 2020 | | |
|---|---|---|---|
| *(in millions)* | Churchill Downs | Online Wagering | Gaming |
| Net revenue | $ 30.2 | $ 121.6 | $ 37.3 |
| Taxes and purses | (13.9) | (6.6) | (14.4) |
| Marketing and advertising | (0.3) | (2.9) | (0.4) |
| Salaries and benefits | (4.9) | (3.0) | (9.0) |
| Content expense | (0.1) | (59.7) | (0.4) |
| Selling, general and administrative expense | (1.2) | (1.7) | (3.9) |
| Other operating expense | (5.3) | (9.0) | (11.1) |
| Other income | — | 0.1 | (0.1) |
| Adjusted EBITDA | $ 4.5 | $ 38.8 | $ (2.0) |

| | Three Months Ended June 30, 2019 | | |
|---|---|---|---|
| *(in millions)* | Churchill Downs | Online Wagering | Gaming |
| Net revenue | $ 193.1 | $ 96.0 | $ 177.8 |
| Taxes and purses | (35.7) | (4.3) | (68.5) |
| Marketing and advertising | (3.6) | (4.5) | (5.1) |
| Salaries and benefits | (12.5) | (2.7) | (25.4) |
| Content expense | (0.8) | (51.8) | (1.7) |
| Selling, general and administrative expense | (2.0) | (1.9) | (6.9) |
| Other operating expense | (16.6) | (8.6) | (21.8) |
| Other income | — | — | 27.7 |
| Adjusted EBITDA | $ 121.9 | $ 22.2 | $ 76.1 |

| | Six Months Ended June 30, 2020 | | |
|---|---|---|---|
| *(in millions)* | **Churchill Downs** | **Online Wagering** | **Gaming** |
| Net revenue | $ 54.0 | $ 189.3 | $ 186.4 |
| Taxes & purses | (21.0) | (10.5) | (73.5) |
| Marketing & advertising | (1.4) | (6.4) | (5.7) |
| Salaries & benefits | (11.1) | (6.5) | (38.5) |
| Content expense | (0.5) | (92.9) | (1.6) |
| SG&A expense | (2.7) | (3.1) | (10.6) |
| Other operating expense | (10.9) | (16.2) | (30.6) |
| Other income | — | 0.1 | 21.1 |
| Adjusted EBITDA | $ 6.4 | $ 53.8 | $ 47.0 |

| | Six Months Ended June 30, 2019 | | |
|---|---|---|---|
| *(in millions)* | **Churchill Downs** | **Online Wagering** | **Gaming** |
| Net revenue | $ 214.5 | $ 159.4 | $ 347.9 |
| Taxes & purses | (41.9) | (7.6) | (133.5) |
| Marketing & advertising | (4.7) | (5.5) | (10.2) |
| Salaries & benefits | (17.7) | (5.2) | (49.9) |
| Content expense | (1.3) | (83.9) | (2.9) |
| SG&A expense | (3.7) | (3.7) | (13.3) |
| Other operating expense | (21.9) | (14.4) | (40.8) |
| Other income | — | — | 43.6 |
| Adjusted EBITDA | $ 123.3 | $ 39.1 | $ 140.9 |

| *(in millions)* | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 |
|---|---|---|---|---|
| **Reconciliation of Comprehensive (Loss) Income to Adjusted EBITDA:** | | | | |
| **Net (loss) income and comprehensive (loss) income attributable to CDI** | $ (118.8) | $ 107.1 | $ (142.2) | $ 118.7 |
| Net loss attributable to noncontrolling interest | — | — | 0.1 | — |
| Net (loss) income before noncontrolling interest | (118.8) | 107.1 | (142.3) | 118.7 |
| Loss from discontinued operations, net of tax | 95.2 | 1.2 | 96.1 | 1.5 |
| (Loss) income from continuing operations, net of tax | (23.6) | 108.3 | (46.2) | 120.2 |
| Additions: | | | | |
| Depreciation and amortization | 22.1 | 21.5 | 44.1 | 42.3 |
| Interest expense | 20.3 | 19.4 | 39.6 | 33.1 |
| Income tax (benefit) provision | (7.9) | 38.6 | (19.5) | 45.1 |
| EBITDA | $ 10.9 | $ 187.8 | $ 18.0 | $ 240.7 |
| Adjustments to EBITDA: | | | | |
| Selling, general and administrative: | | | | |
| Stock-based compensation expense | $ 6.1 | $ 7.4 | $ 10.4 | $ 12.1 |
| Other charges | (0.1) | — | (0.1) | 0.5 |
| Pre-opening expense and other expense | 1.9 | 0.9 | 3.6 | 2.2 |
| Impairment of intangible assets | — | — | 17.5 | — |
| Transaction expense, net | 0.2 | 0.6 | 0.5 | 4.1 |
| Other income, expense: | | | | |
| Interest, depreciation and amortization expense related to equity investments | 9.8 | 9.7 | 19.3 | 13.2 |
| Changes in fair value of Midwest Gaming's interest rate swaps | 1.3 | 7.9 | 16.2 | 12.2 |
| Midwest Gaming's recapitalization and transactions costs | — | 0.8 | — | 4.7 |
| Other | — | (0.1) | — | (0.1) |
| Total adjustments to EBITDA | 19.2 | 27.2 | 67.4 | 48.9 |
| **Adjusted EBITDA** | $ 30.1 | $ 215.0 | $ 85.4 | $ 289.6 |
| **Adjusted EBITDA by segment:** | | | | |
| Churchill Downs | $ 4.5 | $ 121.9 | $ 6.4 | $ 123.3 |
| Online Wagering | 38.8 | 22.2 | 53.8 | 39.1 |
| Gaming | (2.0) | 76.1 | 47.0 | 140.9 |
| Total segment Adjusted EBITDA | 41.3 | 220.2 | 107.2 | 303.3 |
| All Other | $ (11.2) | $ (5.2) | $ (21.8) | $ (13.7) |
| **Total Adjusted EBITDA** | $ 30.1 | $ 215.0 | $ 85.4 | $ 289.6 |

The table below presents information about equity in (loss) income of unconsolidated investments included in our reported segments:

| *(in millions)* | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 |
|---|---|---|---|---|
| Gaming | $ (11.1) | $ 9.5 | $ (14.4) | $ 13.6 |

The table below presents total asset information for each of our segments:

| *(in millions)* | June 30, 2020 | December 31, 2019 |
|---|---|---|
| **Total assets:** | | |
| Churchill Downs | $ 395.2 | $ 370.3 |
| Online Wagering | 250.1 | 241.5 |
| Gaming | 945.5 | 1,030.1 |
| Total segment assets | 1,590.8 | 1,641.9 |
| All Other | 1,625.2 | 909.1 |
| **Total assets** | $ 3,216.0 | $ 2,551.0 |

The table below presents total capital expenditures for each of our segments:

| | Six Months Ended June 30, | |
|---|---|---|
| *(in millions)* | 2020 | 2019 |
| **Capital expenditures:** | | |
| Churchill Downs | $ 28.2 | $ 21.9 |
| Online Wagering | 6.1 | 4.9 |
| Gaming | 4.5 | 28.2 |
| Total segment capital expenditures | 38.8 | 55.0 |
| All Other | 92.5 | 3.8 |
| **Total capital expenditures** | $ 131.3 | $ 58.8 |

## 19. SUBSEQUENT EVENT

As of the date of this filing, there were no subsequent events that may impact our disclosures in the condensed consolidated financial statements except for the discussions regarding the impact of the COVID-19 pandemic on our business disclosed in Note 1, Description of Business.

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

This report contains various “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”), which 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 that 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 following:

- the impact of the novel coronavirus (COVID-19) pandemic and related economic matters on our results of operations, financial conditions and prospects;
- the effect of economic conditions on our consumers' confidence and discretionary spending or our access to credit;
- additional or increased taxes and fees;
- public perceptions or lack of confidence in the integrity of our business or any deterioration in our reputation;
- loss of key or highly skilled personnel;
- restrictions in our debt facilities limiting our flexibility to operate our business;
- general risks related to real estate ownership, including fluctuations in market values and environmental regulations;
- catastrophic events and system failures disrupting our operations;
- online security risk, including cyber-security breaches;
- inability to recover under our insurance policies for damages sustained at our properties in the event of inclement weather and casualty events;
- increases in insurance costs and inability to obtain similar insurance coverage in the future;
- inability to identify and complete acquisition, expansion or divestiture projects, on time, on budget or as planned;
- difficulty in integrating recent or future acquisitions into our operations;
- costs and uncertainties relating to the development of new venues and expansion of existing facilities;
- risks associated with equity investments, strategic alliances and other third-party agreements;
- inability to respond to rapid technological changes in a timely manner;
- inadvertent infringement of the intellectual property of others;
- inability to protect our own intellectual property rights;
- payment-related risks, such as risk associated with fraudulent credit card and debit card use;
- compliance with the Foreign Corrupt Practices Act or applicable money-laundering regulations;
- risks related to pending or future legal proceedings and other actions;
- inability to negotiate agreements with industry constituents, including horsemen and other racetracks;
- work stoppages and labor issues;
- changes in consumer preferences, attendance, wagering, and sponsorship with respect to Churchill Downs Racetrack and the Kentucky Derby;
- personal injury litigation related to injuries occurring at our racetracks;
- weather and other conditions affecting our ability to conduct live racing;
- the occurrence of extraordinary events, such as terrorist attacks, public health threats and civil unrest;
- changes in the regulatory environment of our racing operations;
- increased competition in the horse racing business;
- difficulty in attracting a sufficient number of horses and trainers for full field horse races;

- our inability to utilize and provide totalizator services;
- changes in regulatory environment of our online horse racing wagering business;
- a reduction in the number of people wagering on live horse races;
- increased competition in our online horse racing wagering business;
- uncertainty and changes in the legal landscape relating to our online horse racing wagering business;
- continued legalization of online sports betting and iGaming in the United States and our ability to predict and capitalize on any such legalization;
- inability to expand our sports betting operations and effectively compete;
- failure to manage risks associated with sports betting;
- failure to comply with laws requiring us to block access to certain individuals could result in penalties or impairment with respect to our mobile and online wagering products;
- increased competition in our casino business;
- changes in regulatory environment of our casino business;
- concentration and evolution of slot machine manufacturing and other technology conditions that could impose additional costs; and
- inability to collect gaming receivables from the customers to whom we extend credit.

*The following information is unaudited. Tabular dollars are in millions, except per share amounts. All per share amounts assume dilution unless otherwise noted. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2019, including Part I - Item 1A, "Risk Factors" of our Form 10-K for a discussion regarding some of the reasons that actual results may be materially different from those we anticipate.*

## Our Business

### *Executive Overview*

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.

### *Impact of COVID-19 Pandemic*

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. Considerable uncertainty still surrounds the COVID-19 virus and its potential effects, and the extent of and effectiveness of responses taken on international, national and local levels. Measures taken to limit the impact of COVID-19, including shelter-in-place orders, social distancing measures, travel bans and restrictions, and business and government shutdowns, have resulted and continue to result in significant negative economic impacts in the United States and in relation to our business. The long-term impact of COVID-19 on the United States and world economies and continuing impact on our business remains uncertain, the duration and scope of which cannot currently be predicted.

In response to the measures taken to limit the impact of COVID-19 described above, and for the protection of our employees, customers, and communities, we temporarily suspended operations at our properties in March 2020. In May 2020, we began to reopen our properties with patron capacity limitations and gaming restrictions. We also implemented other initiatives to facilitate social distancing and enhanced cleaning, such as increased frequency of cleaning and sanitizing of all high-touch surfaces, mandatory temperature checks of all guests and team members upon entry and required training for all team members on safety protocols. Certain amenities at our properties have continued to be suspended, including all of our food buffets and valet services, and certain restaurants and food outlets. Below is a summary of the temporary closures or suspended operations and the current status of each property:

**Churchill Downs**

- Churchill Downs Racetrack conducted 27 spectator-free live racing days from May 16, 2020 through June 28, 2020. Churchill Downs Racetrack suspended simulcast operations on March 15, 2020 and such operations currently remain closed.
- Derby City Gaming temporarily suspended operations on March 15, 2020 and reopened on June 8, 2020. Derby City Gaming is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its gaming capacity to approximately 66%.

**Gaming**

*Wholly-Owned Properties*

- Calder Casino and Racing ("Calder") temporarily suspended operations on March 16, 2020 and reopened on June 12, 2020. Operations were temporarily suspended again on July 2, 2020 following a Miami-Dade Emergency Order issued by the county's mayor to close all entertainment venues in Miami-Dade county.
- Fair Grounds Slots, Fair Grounds Race Course and Video Services, LLC ("VSI") (collectively, "Fair Grounds and VSI"):
    - Fair Grounds Slots temporarily suspended operations on March 16, 2020 and reopened on June 13, 2020. Fair Grounds Slots is currently restricted to 25% patron capacity and has implemented social distancing measures, which has limited its gaming capacity to approximately 50%;
    - Fair Grounds Race Course conducted spectator-free live racing from March 13, 2020 through March 21, 2020 and did not have any live race days during the second quarter of 2020; and
    - VSI temporarily suspended operations on March 16, 2020 and reopened on May 18, 2020. VSI is currently restricted to 50% patron capacity and has implemented social distancing measures, which has limited its gaming capacity to approximately 70%.
- Harlow's Casino Resort and Spa ("Harlow's") temporarily suspended operations on March 16, 2020 and reopened on May 21, 2020. Harlow’s is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its slot gaming capacity to approximately 66% and its table games capacity to approximately 60%.

- Ocean Downs Casino and Racetrack ("Ocean Downs") temporarily suspended operations on March 15, 2020 and reopened on June 19, 2020. Ocean Downs is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its video lottery terminals ("VLTs") capacity to approximately 70% and its table game capacity to approximately 60%.
- Oxford Casino and Hotel ("Oxford") temporarily suspended operations on March 16, 2020 and reopened on July 9, 2020. Oxford is currently restricted to 200 persons on the gaming floor and only allows slot gaming.
- Presque Isle Downs and Casino ("Presque Isle") temporarily suspended operations on March 16, 2020 and reopened on June 26, 2020. Presque Isle is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its slot gaming capacity to approximately 60% and its table game capacity to approximately 60%.
- Riverwalk Casino Hotel ("Riverwalk") temporarily suspended operations on March 16, 2020 and reopened on May 21, 2020. Riverwalk is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its slot gaming capacity to approximately 66% and its table games capacity to approximately 60%.

*Managed Properties*

- Lady Luck Casino Nemacolin ("Lady Luck Nemacolin") temporarily suspended operations on March 16, 2020 and reopened on June 12, 2020. Lady Luck Nemacolin is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its slot gaming capacity to approximately 50% and its table game capacity to approximately 60%.

*Equity Investments*

- Rivers Casino Des Plaines ("Rivers Des Plaines") temporarily suspended operations on March 15, 2020 and reopened on July 1, 2020. Rivers Des Plaines is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its slot gaming capacity to approximately 66% and its table games capacity to approximately 60%.
- Miami Valley Gaming and Racing ("MVG") temporarily suspended operations on March 14, 2020 and reopened on June 19, 2020. MVG is currently restricted to 50% of patron capacity and has implemented social distancing measures, which has limited its VLT capacity to approximately 50%.

**All Other**

- Arlington International Racecourse ("Arlington") temporarily suspended operations of its off-track betting facilities ("OTBs") and simulcast operations on March 16, 2020. Four OTBs reopened on June 5, 2020 and the remaining OTBs reopened on various dates in July 2020. Arlington is scheduled to conduct 30 spectator-free live racing days from July 23, 2020 through September 26, 2020.
- Turfway Park conducted nine live racing days from March 12, 2020 through March 21, 2020 and five of these live racing days were run spectator-free. Live racing was canceled for the remaining three scheduled racing days in March 2020. Turfway Park did not have any race days scheduled in the second quarter of 2020.

On March 25, 2020, as a result of the temporary closures and suspended operations described above, the Company announced the temporary furlough of employees at its wholly-owned and managed gaming properties and certain racing operations. As the Company has reopened these properties, certain employees have returned to work while others remain on temporary furlough due to the capacity restrictions at these properties. The Company is providing health, dental, vision and life insurance benefits to furloughed employees through July 31, 2020.

The Company also implemented a temporary salary reduction for all remaining non-furloughed salaried employees based on a percentage that varies dependent upon the amount of each employee’s salary. The most senior level of executive management has received the largest salary decrease, based on both percentage and dollar amount. Salaries for non-furloughed employees will resume at the annual base salary beginning with their start of the employee's first full pay period subsequent to July 31, 2020.

There have been a number of other aspects of our business that have been impacted by COVID-19 during the three and six months ended June 30, 2020, including the following:

- The Company rescheduled the 146th Kentucky Oaks and Derby from May 1-2, 2020 to September 4-5, 2020. On June 24, 2020, the Company received approval from the Governor of Kentucky and state public health officials for its plan to allow limited spectators to attend the Kentucky Derby week events held September 1-5, 2020.
- Horse racing content for wagering on our TwinSpires business ("TwinSpires") decreased, although handle increased as our customers wagered more on the content that was available.

- Starting in mid-February 2020, U.S. and international sporting events were cancelled, which reduced sports betting content for our customers.

***Financial Status and Outlook***

The Company has temporarily reduced its planned maintenance and project capital expenditures for 2020 as a result of the temporary property and operations closures and has prioritized its capital investments based on the highest near-term return opportunities in order to maintain financial flexibility.

On March 16, 2020, we borrowed $675.4 million on our revolving credit facility (the "Revolver") pursuant to the Credit Agreement (defined below) to provide the Company with additional financial flexibility, which provided the Company with $649.2 million of cash and cash equivalents as of June 30, 2020.

On April 28, 2020, the Company entered into a Second Amendment to its Credit Agreement, which (i) provides for a financial covenant relief period through the date on which the Company delivers its quarterly financial statements and compliance certificate for the fiscal quarter ending June 30, 2021, subject to certain exceptions (the “Financial Covenant Relief Period”), (ii) amends the definition of “Consolidated EBITDA” in the Credit Agreement with respect to the calculation of Consolidated EBITDA for the first two fiscal quarters after the termination of the Financial Covenant Relief Period, (iii) extends certain deadlines and makes certain other amendments to the Company’s financial reporting obligations, (iv) places certain restrictions on restricted payments during the Financial Covenant Relief Period, and (v) amends the definitions of “Material Adverse Effect” and “License Revocation” in the Credit Agreement to take into consideration COVID-19.

During the Financial Covenant Relief Period, the Company will not be required to comply with the consolidated total secured net leverage ratio financial covenant and the interest coverage ratio financial covenant. The Company has agreed to a minimum liquidity financial covenant that requires the Company and its restricted subsidiaries to maintain liquidity of at least $150.0 million during the Financial Covenant Relief Period. Although the Company was not required to meet its financial covenants under our Credit Agreement at June 30, 2020 (as a result of the Second Amendment to the Credit Agreement), the Company was in compliance with all such applicable covenants at June 30, 2020.

We continue to assess the situation at our properties and operations on a daily basis; however, we are unable to determine when we will be able to reopen any properties and / or operations that are closed or that may be closed in the future, the conditions upon which we will reopen, and when the current restrictions in place for our opened properties will be removed. Our third quarter of 2020 financial results will be materially impacted by the rescheduling of the Kentucky Oaks and Derby from the second quarter of 2020 to the third quarter of 2020, by the temporary suspended operations at certain properties, and continued restrictions at the properties that have reopened.

Based on our current projected operating cash flow needs, interest and debt repayments, and revised maintenance and project capital expenditures, we believe we have adequate cash to fund our business operations, meet all of our financial commitments, and invest in our prioritized key growth capital projects for well beyond the next twelve months.

***Kater and Thimmegowda Settlement***

On May 22, 2020, we entered into an agreement in principle to settle Cheryl Kater v. Churchill Downs Incorporated ("Kater litigation") and Manasa Thimmegowda v. Big Fish Games, Inc. (the “Thimmegowda litigation”). The agreement in principle remains contingent on final court approval by the U.S. District Court for the Western District of Washington (the “District Court”). Under the terms of the settlement, which will take effect only after final court approval of the proposed class settlement: (i) a total of $155.0 million will be paid into a settlement fund. CDI will pay $124.0 million pre-tax of the settlement from its available cash; Aristocrat Technologies, Inc. ("Aristocrat") will pay $31.0 million pre-tax of the settlement; (ii) all members of the nationwide settlement class who do not exclude themselves will release all claims relating to the subject matter of the lawsuits; and (iii) Aristocrat has agreed to specifically release CDI of any and all indemnification obligations under the Stock Purchase Agreement dated November 29, 2017 (the "Stock Purchase Agreement"), among the Company, Aristocrat, and Big Fish Games, Inc. ("Big Fish Games") arising from or related to the Kater and Thimmegowda litigations, including any claims of diminution of value of Big Fish Games and any claims by any person who opts out of the proposed class settlement. The $124.0 million pre-tax settlement related to the Company is included in loss from discontinued operations, net of tax in the accompanying condensed consolidated statements of comprehensive (loss) income for the three and six months ended June 30, 2020, and on a pre-tax basis in current liabilities of discontinued operations in the accompanying condensed consolidated balance sheets at June 30, 2020.

***Asset Impairment***

During the quarter ended March 31, 2020, the Company evaluated whether events or circumstances changed that would indicate it is more likely than not that any of its indefinite-lived intangible assets, goodwill, or property and equipment, were impaired ("Trigger Event"), or if there were any other than temporary impairments of our equity investments. Factors considered in this evaluation included, among other things, the amount of the fair value over carrying value from the annual impairment testing performed as of April 1, 2019, changes in carrying values, changes in discount rates, and the impact of temporary property closures due to the COVID-19 pandemic on cash flows. Based on the Company's evaluation, the Company concluded that a Trigger Event occurred related to the Presque Isle gaming rights, trademark, and the reporting unit's goodwill due to the impact and uncertainty of the COVID-19 pandemic and the recent closing of the Presque Isle Transaction (as defined below) in 2019. As a result of the Trigger Event, the Company recognized an impairment in the first quarter of 2020 of $15.0 million for its Presque Isle gaming rights intangible asset and an impairment of $2.5 million for its Presque Isle trademark intangible asset.

***Segments***

We manage our operations through 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 a historical racing machine facility that operates under the Churchill Downs pari-mutuel racing license at its ancillary 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 Company platforms; facilitates high dollar wagering by international customers (Velocity); and provides the platform for horse racing statistical data generated by our information business that provides data and processing services to the equine industry (Brisnet).

  Our sports betting and iGaming business includes the online BetAmerica sports betting and casino gaming operations. On July 29, 2020, the Company announced a partnership to operate a retail BetAmerica sportsbook at Island Resort & Casino in Harris, Michigan, and a BetAmerica online sportsbook and online iGaming platform available throughout the state of Michigan, subject to gaming license and regulatory approvals.

- ***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
  - Fair Grounds and VSI
  - Harlow's
  - Lady Luck Nemacolin management agreement
  - Ocean Downs
  - Oxford
  - Presque Isle
  - 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, the parent company of Rivers Des Plaines in Des Plaines, Illinois
- 50% equity investment in 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
- 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 condensed consolidated statements of comprehensive income.

***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").

***Acquisition of Certain Ownership Interests of Midwest Gaming Holdings, LLC***

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 Des Plaines in Des Plaines, Illinois to acquire approximately 42% of Midwest Gaming from affiliates and co-investors of Clairvest Group Inc. ("Clairvest") and members of High Plaines Gaming, LLC ("High Plaines"), 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 Plaines and Casino Investors. As a result of the Recapitalization, the Company's ownership of Midwest Gaming increased to 61.3%. High Plaines 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.

***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. On July 28, 2020, the Company's Board of Directors approved the final design plans for the HRM and grandstand facility at Turfway Park. The final plans reflect a project capital of $200.0 million, which includes the Turfway Park Acquisition costs and other previously approved capital. The 155,000 square foot facility will include a grandstand, sports bar, food offerings, and up to 1,200 historical racing machines. The Turfway Park facility is expected to open in the fourth quarter of 2021.

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.

The Company has announced plans and has begun to invest up to $38.4 million for an extension of Turfway Park, to be located in Newport, Kentucky, which will include a simulcast area including a separate VIP simulcast room, a 17,000 square foot gaming floor with 500 historical racing machines and a feature bar. The Company plans to open the extension in the fourth quarter of 2020.

***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 condensed 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 EBITDA from our equity investments.

Adjusted EBITDA excludes:

- Transaction expense, net which includes:
  - Acquisition and disposition related charges;
  - 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;
- 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 accompanying condensed consolidated statements of comprehensive income. Refer to the reconciliation of comprehensive income to Adjusted EBITDA included in this section for additional information.

***Government Regulations and Legislative Actions***

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. The following update on our regulatory and legislative activities should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2019, including Part I - Item 1, "Business," for a discussion of regulatory and legislative issues.

**Specific State Casino Regulations and Legislative Actions**

*Illinois*

On June 30, 2020, legislation was signed into law by the Governor of Illinois that provides financial relief to the gaming industry. The legislation amends the existing law to allow the lower privilege tax on table games for existing casinos to be effective on July 1, 2020 instead of when a newly authorized casino begins operations. The legislation also provides cash flow relief for existing casinos by extending the payment deadline for new gaming positions from July 1, 2020 to July 1, 2021 and extends the payment period and waives interest for reconciliation payments related to the new gaming positions. The legislation delays the payment deadline for an initial sports wagering license from July 1, 2020 to July 1, 2021 and also establishes a lower privilege tax schedule for a new casino in Chicago, which has been authorized by not yet opened. We believe the legislation will have a positive impact on our business operations.

*Louisiana*

Effective July 15, 2020, legislation was signed into law by the Governor of Louisiana that exempts the tax on promotional play for casinos and OTBs. We believe the legislation will have a positive impact on our business operations.

**Consolidated Financial Results**

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

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| *(in millions)* | **2020** | **2019** | **Change** | **2020** | **2019** | **Change** |
| Net revenue | $ 185.1 | $ 477.4 | $ (292.3) | $ 438.0 | $ 742.8 | $ (304.8) |
| Operating (loss) income | (0.4) | 156.4 | (156.8) | (12.0) | 184.4 | (196.4) |
| Operating (loss) income margin | 0 % | 33 % | | (3)% | 25 % | |
| Net (loss) income from continuing operations | $ (23.6) | $ 108.3 | $ (131.9) | $ (46.2) | $ 120.2 | $ (166.4) |
| Net (loss) income attributable to Churchill Downs Incorporated | (118.8) | 107.1 | (225.9) | (142.2) | 118.7 | (260.9) |
| Adjusted EBITDA | 30.1 | 215.0 | (184.9) | 85.4 | 289.6 | (204.2) |

***Three Months Ended June 30, 2020, Compared to Three Months Ended June 30, 2019***

- Net revenue decreased $292.3 million driven by a $158.9 million decrease from Churchill Downs primarily due to the rescheduling of the 146th Kentucky Oaks and Derby and the temporary suspension of operations at Derby City Gaming, a $140.3 million decrease from Gaming due to the temporary suspension of operations of all of our Gaming properties, and an $18.7 million decrease from All Other primarily due to the temporary suspension of operations at Arlington. Partially offsetting these decreases were a $25.6 million increase from Online Wagering due to an increase in handle and net revenue per active player at TwinSpires.
- Operating (loss) income decreased $156.8 million due to a $116.4 million decrease from Churchill Downs due to the rescheduling of the 146th Kentucky Oaks and Derby and the temporary suspension of operations at Derby City Gaming; a $52.7 million decrease from Gaming due to the temporary closure of all Gaming properties; and an $8.8 million decrease from All Other primarily due to the temporary suspension of operations at Arlington. Partially offsetting these decreases were a $13.0 million increase from Online Wagering due to an increase in handle and net revenue per active players at TwinSpires, a $7.7 million decrease in selling, general and administrative expense related to salaries and related benefits, and a $0.4 million decrease in transaction expense, net.
- Net (loss) income from continuing operations decreased $131.9 million. The following items impacted comparability of the Company's second quarter of 2020 net (loss) income from continuing operations compared to the prior year quarter: a $4.8 million after-tax expense decrease related to our equity portion of the non-cash change in fair value of Midwest Gaming's interest rate swaps and a $0.6 million after-tax decrease of our equity portion of Midwest Gaming's recapitalization and transaction costs in the second quarter of 2019 that did not recur in the current year quarter. Partially offsetting these decreases were a $0.6 million non-cash tax impact related to the re-measurement of our net deferred tax liabilities in the second quarter of 2019 that did not recur in the current year quarter based on an increase in revenue related to states with higher tax rates and a $0.6 million after-tax increase in expenses related to lower transaction, pre-opening and other expenses. Excluding these items, net (loss) income from continuing operations decreased $136.1 million primarily due to a $135.2 million after-tax decrease driven by the results of our operations

and equity income from our unconsolidated affiliates and a $0.9 million after-tax increase in interest expense associated with higher outstanding debt balances.

- Net (loss) income attributable to Churchill Downs Incorporated decreased $225.9 million due to a $131.9 million decrease in net (loss) income from continuing operations discussed above and a $94.0 million increase in net loss from discontinued operations. During the second quarter of 2020, we entered into a settlement for the Kater and Thimmegowda litigations for $124.0 million ($95.0 million after-tax) which increased our net loss from discontinued operations compared to the prior year quarter.
- Adjusted EBITDA decreased $184.9 million driven by a $117.4 million decrease from Churchill Downs primarily due to the rescheduling of the 146th Kentucky Oaks and Derby and the temporary suspension of operations at Derby City Gaming; a $78.1 million decrease from Gaming due to the temporary suspension of operations of all of our Gaming properties; and a $6.0 million decrease from All Other primarily due to the temporary suspension of operations at Arlington. Partially offsetting these decreases was a $16.6 million increase from Online Wagering from increased handle and net revenue per active players at TwinSpires.

***Six Months Ended June 30, 2020, Compared to Six Months Ended June 30, 2019***

- Net revenue decreased $304.8 million driven by a $161.5 million decrease from Gaming due to the temporary suspension of operations of all of our Gaming properties; a $156.4 million decrease from Churchill Downs primarily due to the rescheduling of the 146th Kentucky Oaks and Derby and the temporary suspension of operations at Derby City Gaming; and a $16.7 million decrease from All Other primarily due to the temporary suspension of operations at Arlington. Partially offsetting these decreases was a $29.8 million increase from Online Wagering due to an increase in handle and net revenue per active player at TwinSpires.
- Operating (loss) income decreased $196.4 million due to a $117.1 million decrease from Churchill Downs due to the rescheduling of the 146th Kentucky Oaks and Derby and the temporary suspension of operations at Derby City Gaming; a $73.7 million decrease from Gaming due to the temporary closure of all Gaming properties; a $17.5 million non-cash impairment of the Presque Isle gaming rights and trademark intangible assets; and a $12.4 million decrease from All Other primarily due to the temporary suspension of operations at Arlington. Partially offsetting these decreases were a $12.2 million increase from Online Wagering due to an increase in handle and net revenue per active players at TwinSpires, an $8.5 million decrease in selling, general and administrative expense related to salaries and related benefits, and a $3.6 million decrease in transaction expense, net.
- Net (loss) income from continuing operations decreased $166.4 million. The following items impacted comparability of the Company's net income from continuing operations during the six months ended June 30, 2020 compared to the prior year period: a $12.0 million non-cash after-tax impact related to our impairment of the Presque Isle intangible assets and a $3.0 million after-tax expense increase related to our equity portion of the non-cash change in fair value of Midwest Gaming's interest rate swaps. Partially offsetting these decreases were a $3.5 million after-tax decrease of our equity portion of Midwest Gaming's recapitalization and transaction costs in the second quarter of 2019 that did not recur in 2020, a $2.2 million non-cash tax impact related to the re-measurement of our net deferred tax liabilities in 2019 that did not recur in 2020 based on an increase in revenue related to states with higher tax rates, and a $1.9 million after-tax decrease in expenses related to lower transaction, pre-opening and other expenses. Excluding these items, net income from continuing operations decreased $159.0 million primarily due to a $154.1 million after-tax decrease driven by the results of our operations and equity income from our unconsolidated affiliates and a $4.9 million after-tax increase in interest expense associated with higher outstanding debt balances.
- Net (loss) income attributable to Churchill Downs Incorporated decreased $260.9 million due to a $166.4 million decrease in net (loss) income from continuing operations discussed above and a $94.6 million increase in net loss from discontinued operations, partially offset by a $0.1 million increase from our net loss attributable to our noncontrolling interest. During the second quarter of 2020, we settled the Kater and Thimmegowda litigations for $124.0 million pre-tax ($95.0 million after-tax) which increased our net loss from discontinued operations compared to the prior year period.
- Adjusted EBITDA decreased $204.2 million driven by a $116.9 million decrease from Churchill Downs primarily due to the rescheduling of the 146th Kentucky Oaks and Derby and the temporary suspension of operations at Derby City Gaming; a $93.9 million decrease from Gaming due to the temporary suspension of operations of all of our Gaming properties; and an $8.1 million decrease from All Other primarily due to the temporary suspension of operations at Arlington. Partially offsetting these decreases was a $14.7 million increase from Online Wagering from increased handle and net revenue per active players at TwinSpires.

**<u>Financial Results by Segment</u>**

**Net Revenue by Segment**

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

| *(in millions)* | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 | Three Months Ended June 30, Change | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 | Six Months Ended June 30, Change |
|---|---|---|---|---|---|---|
| Churchill Downs: | | | | | | |
| Churchill Downs Racetrack | $ 22.5 | $ 171.9 | $ (149.4) | $ 24.7 | $ 174.6 | $ (149.9) |
| Derby City Gaming | 7.7 | 21.2 | (13.5) | 29.3 | 39.9 | (10.6) |
| Total Churchill Downs | 30.2 | 193.1 | (162.9) | 54.0 | 214.5 | (160.5) |
| Online Wagering: | | | | | | |
| TwinSpires | 120.3 | 95.9 | 24.4 | 187.3 | 159.2 | 28.1 |
| Online Sports Betting and iGaming | 1.3 | 0.1 | 1.2 | 2.0 | 0.2 | 1.8 |
| Total Online Wagering | 121.6 | 96.0 | 25.6 | 189.3 | 159.4 | 29.9 |
| Gaming: | | | | | | |
| Fair Grounds and VSI | 11.1 | 30.9 | (19.8) | 44.2 | 69.7 | (25.5) |
| Presque Isle | 2.0 | 37.3 | (35.3) | 29.6 | 67.0 | (37.4) |
| Calder | 5.7 | 25.6 | (19.9) | 27.5 | 51.0 | (23.5) |
| Oxford | 0.1 | 26.3 | (26.2) | 20.2 | 50.2 | (30.0) |
| Ocean Downs | 3.1 | 21.9 | (18.8) | 17.9 | 40.3 | (22.4) |
| Riverwalk | 7.4 | 14.2 | (6.8) | 20.1 | 30.5 | (10.4) |
| Harlow's | 5.6 | 13.3 | (7.7) | 17.3 | 28.6 | (11.3) |
| Lady Luck Nemacolin | 2.3 | 8.3 | (6.0) | 9.6 | 10.6 | (1.0) |
| Total Gaming | 37.3 | 177.8 | (140.5) | 186.4 | 347.9 | (161.5) |
| All Other | 6.2 | 25.4 | (19.2) | 23.7 | 40.1 | (16.4) |
| Eliminations | (10.2) | (14.9) | 4.7 | (15.4) | (19.1) | 3.7 |
| **Net Revenue** | $ 185.1 | $ 477.4 | $ (292.3) | $ 438.0 | $ 742.8 | $ (304.8) |

***Three Months Ended June 30, 2020, Compared to Three Months Ended June 30, 2019***

- Churchill Downs revenue decreased $162.9 million due to a $149.4 million decrease from Churchill Downs Racetrack primarily due to the rescheduling of the 146th Kentucky Oaks and Derby, and a $13.5 million decrease at Derby City Gaming due to the temporary suspension of operations.
- Online Wagering revenue increased $25.6 million from the prior year quarter primarily due to a $24.4 million increase at TwinSpires. U.S. thoroughbred industry handle decreased 18.9% during the second quarter of 2020 compared to the prior year quarter. Although horse racing content for wagering decreased, TwinSpires handle grew $100.7 million, or 21.6%, compared to the prior year, despite the rescheduling of the 146th Kentucky Oaks and Derby, as our customers wagered more on the content that was available. Active players decreased 55.5% primarily due to the rescheduling of the 146th Kentucky Oaks and Derby; however, net revenue per active player increased 191.9%. Our online sports betting and iGaming net revenues increased $1.2 million compared to the prior year quarter primarily due to a full quarter of iGaming results in Pennsylvania for the second quarter of 2020 compared to the prior year quarter. Sports betting net revenue growth was impacted by the suspension of U.S. and international sporting events beginning in mid-February 2020.
- Gaming revenue decreased $140.5 million primarily due to the temporary suspension of operations of all of our Gaming properties and the loss of revenue at each property.
- All Other revenue decreased $19.2 million primarily due to a $15.4 million decrease at Arlington due to the temporary suspension of operations and a $3.9 million decrease at United Tote due to certain customers suspending services due to COVID-19. Partially offsetting these decreases was a $0.1 million increase from other sources.

***Six Months Ended June 30, 2020, Compared to Six Months Ended June 30, 2019***

- Churchill Downs revenue decreased $160.5 million due to a $149.9 million decrease from Churchill Downs Racetrack primarily due to the rescheduling of the 146th Kentucky Oaks and Derby, and a $10.6 million decrease at Derby City Gaming due to the temporary suspension of operations.
- Online Wagering revenue increased $29.9 million from the prior year period primarily due to a $28.1 million increase at TwinSpires. U.S. thoroughbred industry handle decreased 10.9% during the six months ended June 30, 2020 compared to the prior year period. Although horse racing content for wagering decreased, TwinSpires handle grew $126.1 million, or 16.3%, compared to the prior year period, despite the rescheduling of the 146th Kentucky Oaks and Derby, as our customers wagered more on the content that was available. Active players decreased 52.1% due to the rescheduling of the 146th Kentucky Oaks and Derby; however, net revenue per active player increased 153.2%. Our online sports betting and iGaming net revenues increased $1.8 million compared to the prior year period primarily due to a full six months of iGaming results in Pennsylvania and New Jersey for 2020 compared to the prior year period. Sports betting net revenue growth was impacted by the suspension of U.S. and international sporting events beginning in mid-February 2020.
- Gaming revenue decreased $161.5 million primarily due to the temporary suspension of operations of all of our Gaming properties and the loss of revenue at each property.
- All Other revenue decreased $16.4 million primarily due to a $17.2 million decrease at Arlington due to the temporary suspension of operations and a $4.6 million decrease at United Tote due to certain customers suspending services due to COVID-19. Partially offsetting these decreases was a $5.4 million increase from the Turfway Park Acquisition in October 2019.

**Consolidated Operating Expense**

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

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| *(in millions)* | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Taxes and purses | $ 36.6 | $ 113.1 | $ (76.5) | $ 112.3 | $ 191.3 | $ (79.0) |
| Salaries and benefits | 20.8 | 47.5 | (26.7) | 66.2 | 84.3 | (18.1) |
| Content expense | 50.5 | 41.8 | 8.7 | 82.0 | 73.9 | 8.1 |
| Selling, general and administrative expense | 22.4 | 30.1 | (7.7) | 46.5 | 55.0 | (8.5) |
| Depreciation and amortization | 22.1 | 21.5 | 0.6 | 44.1 | 42.3 | 1.8 |
| Marketing and advertising | 3.8 | 13.7 | (9.9) | 13.6 | 20.9 | (7.3) |
| Transaction expense, net | 0.2 | 0.6 | (0.4) | 0.5 | 4.1 | (3.6) |
| Impairment of intangible assets | — | — | — | 17.5 | — | 17.5 |
| Other operating expense | 29.1 | 52.7 | (23.6) | 67.3 | 86.6 | (19.3) |
| Total expense | $ 185.5 | $ 321.0 | $ (135.5) | $ 450.0 | $ 558.4 | $ (108.4) |

***Three Months Ended June 30, 2020, Compared to Three Months Ended June 30, 2019***

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses decreased $76.5 million driven by the temporary suspension of all operations at our Gaming properties and the related decrease in net revenue and the rescheduling of the 146th Kentucky Oaks and Derby.
- Salaries and benefits expense decreased $26.7 million driven primarily by temporarily furloughing certain employees and reducing salaries for all remaining non-furloughed salaried employees, and rescheduling the 146th Kentucky Oaks and Derby.
- Content expense increased $8.7 million primarily due to an increase in certain host fees and source market fees for TwinSpires.
- Selling, general and administrative expense decreased $7.7 million primarily from a reduction in accrued bonuses and a decrease in stock-based compensation related to performance share units.

- Depreciation and amortization expense increased $0.6 million primarily driven by capital expenditures placed into service for Churchill Downs Racetrack and Derby City Gaming, the Lady Luck Nemacolin Transaction, and the Turfway Park Acquisition.
- Marketing and advertising expense decreased $9.9 million primarily due to the rescheduling of the 146th Kentucky Oaks and Derby and the temporary suspension of operations at our brick and mortar properties, partially offset by an increase in our online sports betting and iGaming marketing spend.
- Other operating expenses include maintenance, utilities, food and beverage costs, property taxes, insurance, and other operating expenses. Other operating expense decreased $23.6 million primarily driven by the rescheduling of the 146th Kentucky Oaks and Derby and the temporary suspension of operations at our brick and mortar properties.

***Six Months Ended June 30, 2020, Compared to Six Months Ended June 30, 2019***

Significant items affecting comparability of consolidated operating expense include:

◦ Taxes and purses decreased $79.0 million driven by the temporary suspension of all operations at our Gaming properties and the related decrease in net revenue and the rescheduling of the 146th Kentucky Oaks and Derby.

◦ Salaries and benefits expense decreased $18.1 million driven primarily by temporarily furloughing certain employees and reducing salaries for all remaining non-furloughed salaried employees, and rescheduling the 146th Kentucky Oaks and Derby.

◦ Content expense increased $8.1 million primarily due to an increase in certain host fees and source market fees for TwinSpires.

◦ Selling, general and administrative expense decreased $8.5 million primarily from a reduction in accrued bonuses and a decrease in stock-based compensation related to performance share units.

◦ Depreciation and amortization expense increased $1.8 million primarily driven by capital expenditures placed into service for Churchill Downs Racetrack and Derby City Gaming, the Lady Luck Nemacolin Transaction, and the Turfway Park Acquisition.

◦ Marketing and advertising expense decreased $7.3 million primarily due to the rescheduling of the 146th Kentucky Oaks and Derby and the temporary suspension of operations at our brick and mortar properties, partially offset by an increase in our online sports betting and iGaming marketing spend.

◦ Transaction expense, net was nominal for the six months ended June 30, 2020. In the six months ended June 30, 2019, transaction expense, net was related to the closings of the Presque Isle and Lady Luck Nemacolin Transactions.

◦ Impairment of intangible assets increased $17.5 million driven by a $15.0 million non-cash impairment charge related to Presque Isle's gaming rights and a $2.5 million non-cash impairment charge related to Presque Isle's trademark.

◦ Other operating expenses include maintenance, utilities, food and beverage costs, property taxes, insurance, and other operating expenses. Other operating expense decreased $19.3 million primarily driven by the rescheduling of the 146th Kentucky Oaks and Derby and the temporary suspension of operations at our brick and mortar properties, partially offset by 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.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| *(in millions)* | **2020** | **2019** | **Change** | **2020** | **2019** | **Change** |
| Churchill Downs | $ 4.5 | $ 121.9 | $ (117.4) | $ 6.4 | $ 123.3 | $ (116.9) |
| Online Wagering | 38.8 | 22.2 | 16.6 | 53.8 | 39.1 | 14.7 |
| Gaming | (2.0) | 76.1 | (78.1) | 47.0 | 140.9 | (93.9) |
| Total Segment Adjusted EBITDA | 41.3 | 220.2 | (178.9) | 107.2 | 303.3 | (196.1) |
| All Other | (11.2) | (5.2) | (6.0) | (21.8) | (13.7) | (8.1) |
| **Total Adjusted EBITDA** | $ 30.1 | $ 215.0 | $ (184.9) | $ 85.4 | $ 289.6 | $ (204.2) |

***Three Months Ended June 30, 2020, Compared to Three Months Ended June 30, 2019***

- Churchill Downs Adjusted EBITDA decreased $117.4 million due to a $111.9 million decrease from Churchill Downs Racetrack primarily due to the rescheduling of the 146th Kentucky Oaks and Derby, and a $5.5 million decrease at Derby City Gaming due to the temporary suspension of operations.
- Online Wagering Adjusted EBITDA increased $16.6 million primarily due to an $18.3 million increase from TwinSpires due to an increase in handle and net revenue per active player, partially offset by a $1.7 million decrease from increased marketing spend and costs associated with the continued build-out of our online sports betting and iGaming operations.
- Gaming Adjusted EBITDA decreased $78.1 million driven by a $50.2 million decrease at our wholly-owned Gaming properties from the decrease in net revenue and a $27.9 million decrease from our equity investments, both of which were due to the temporary suspension of operations of all of our Gaming properties.
- All Other Adjusted EBITDA decreased $6.0 million primarily from a $4.4 million decrease from Arlington due to the temporary suspension of operations, a $2.1 million decrease from United Tote due to a decrease in net revenue, and a $0.7 million decrease due to unfavorable results from the Turfway Park Acquisition. Partially offsetting these decreases was a $1.2 million increase at our corporate operations primarily due to a reduction in accrued bonuses.

***Six Months Ended June 30, 2020, Compared to Six Months Ended June 30, 2019***

- Churchill Downs Adjusted EBITDA decreased $116.9 million due to a $113.0 million decrease from Churchill Downs Racetrack primarily due to the rescheduling of the 146th Kentucky Oaks and Derby, and a $3.9 million decrease at Derby City Gaming due to the temporary suspension of operations.
- Online Wagering Adjusted EBITDA increased $14.7 million primarily due to a $20.5 million increase from TwinSpires due to an increase in handle and net revenue per active player, partially offset by a $5.8 million decrease from increased marketing spend and costs associated with the continued build-out of our online sports betting and iGaming operations.
- Gaming Adjusted EBITDA decreased $93.9 million driven by a $71.4 million decrease at our wholly-owned Gaming properties from the decrease in net revenue and a $22.5 million decrease from our equity investments, both of which were due to the temporary suspension of operations of all of our Gaming properties.
- All Other Adjusted EBITDA decreased $8.1 million primarily from a $4.8 million decrease from Arlington due to the temporary suspension of operations, a $3.3 million decrease from United Tote due to a decrease in net revenue, and a $1.7 million decrease due to unfavorable results from the Turfway Park Acquisition. Partially offsetting these decreases was a $1.7 million increase at our corporate operations primarily due to a reduction in accrued bonuses.

**Reconciliation of Comprehensive (Loss) Income to Adjusted EBITDA**

| *(in millions)* | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 | Three Months Change | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 | Six Months Change |
|---|---|---|---|---|---|---|
| **Net (loss) income and comprehensive (loss) income attributable to CDI** | $ (118.8) | $ 107.1 | $ (225.9) | $ (142.2) | $ 118.7 | $ (260.9) |
| Net loss attributable to noncontrolling interest | — | — | — | 0.1 | — | 0.1 |
| Net (loss) income before noncontrolling interest | (118.8) | 107.1 | (225.9) | (142.3) | 118.7 | (261.0) |
| Loss from discontinued operations, net of tax | 95.2 | 1.2 | 94.0 | 96.1 | 1.5 | 94.6 |
| (Loss) income from continuing operations, net of tax | (23.6) | 108.3 | (131.9) | (46.2) | 120.2 | (166.4) |
| Additions: | | | | | | |
| Depreciation and amortization | 22.1 | 21.5 | 0.6 | 44.1 | 42.3 | 1.8 |
| Interest expense | 20.3 | 19.4 | 0.9 | 39.6 | 33.1 | 6.5 |
| Income tax (benefit) provision | (7.9) | 38.6 | (46.5) | (19.5) | 45.1 | (64.6) |
| EBITDA | $ 10.9 | $ 187.8 | $ (176.9) | $ 18.0 | $ 240.7 | $ (222.7) |
| Adjustments to EBITDA: | | | | | | |
| Selling, general and administrative: | | | | | | |
| Stock-based compensation expense | $ 6.1 | $ 7.4 | $ (1.3) | $ 10.4 | $ 12.1 | $ (1.7) |
| Other charges | (0.1) | — | (0.1) | (0.1) | 0.5 | (0.6) |
| Pre-opening expense and other expense | 1.9 | 0.9 | 1.0 | 3.6 | 2.2 | 1.4 |
| Impairment of intangible assets | — | — | — | 17.5 | — | 17.5 |
| Transaction expense, net | 0.2 | 0.6 | (0.4) | 0.5 | 4.1 | (3.6) |
| Other income, expense: | | | | | | |
| Interest, depreciation and amortization expense related to equity investments | 9.8 | 9.7 | 0.1 | 19.3 | 13.2 | 6.1 |
| Changes in fair value of Midwest Gaming's interest rate swaps | 1.3 | 7.9 | (6.6) | 16.2 | 12.2 | 4.0 |
| Midwest Gaming's recapitalization and transactions costs | — | 0.8 | (0.8) | — | 4.7 | (4.7) |
| Other | — | (0.1) | 0.1 | — | (0.1) | 0.1 |
| Total adjustments to EBITDA | 19.2 | 27.2 | (8.0) | 67.4 | 48.9 | 18.5 |
| **Adjusted EBITDA** | $ 30.1 | $ 215.0 | $ (184.9) | $ 85.4 | $ 289.6 | $ (204.2) |

**Consolidated Balance Sheet**

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

| *(in millions)* | June 30, 2020 | December 31, 2019 | Change |
|---|---|---|---|
| Total assets | $ 3,216.0 | $ 2,551.0 | $ 665.0 |
| Total liabilities | $ 2,893.3 | $ 2,040.0 | $ 853.3 |
| Total shareholders' equity | $ 322.7 | $ 511.0 | $ (188.3) |

Significant items affecting the comparability of our condensed consolidated balance sheets include:

- Total assets increased $665.0 million driven by a $553.0 million increase in cash and cash equivalents primarily due to borrowings under our Credit Agreement; a $105.9 million increase in property and equipment, net primarily due to the construction of Oak Grove; a $22.3 million increase in income taxes receivable due to current year income tax benefit; and a $21.9 million increase in all other assets. Partially offsetting these increases were a $19.1 million decrease in investment in and advances to unconsolidated affiliates due to current year equity in loss of unconsolidated affiliates and a $19.0 million decrease in other intangible assets, net primarily related to the impairment of Presque Isle's intangible assets.
- Total liabilities increased $853.3 million primarily driven by a $693.1 million increase in long-term debt, net primarily due to borrowings under our Credit Agreement; a $124.0 million increase in current liabilities of discontinued operations due to the Kater and Thimmegowda litigations settlement; a $48.0 million increase in accounts payable primarily due to the construction of Oak Grove; and a $47.3 million increase in current deferred revenue due to advanced sales associated with the 2020 Kentucky Derby and Oaks. Partially offsetting these increases were a $24.8 million decrease in deferred income taxes primarily due to the Kater and Thimmegowda litigations settlement; a $23.5 million decrease in dividends payable due to the payment of our annual dividends in January 2020; and a $10.8 million decrease in all other liabilities.
- Total shareholders' equity decreased $188.3 million driven by a $142.3 million current year net loss, $27.9 million in repurchases of common stock, $15.1 million in taxes paid related to net share settlement of stock awards, and $12.7 million in cash settlement for stock awards. Partially offsetting these decreases was a $9.7 million increase from all other equity components.

**Liquidity and Capital Resources**

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

| *(in millions)* | Six Months Ended June 30, | | |
|---|---|---|---|
| Cash flows from: | **2020** | **2019** | **Change** |
| Operating activities | $ 76.9 | $ 214.3 | $ (137.4) |
| Investing activities | $ (131.8) | $ (653.9) | $ 522.1 |
| Financing activities | $ 611.4 | $ 511.8 | $ 99.6 |

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.

***Six Months Ended June 30, 2020, Compared to the Six Months Ended June 30, 2019***

- Cash provided by operating activities decreased $137.4 million driven by a $178.9 million decrease in operating (loss) income related to continuing operations, net of the $17.5 million non-cash impairment of Presque Isle's intangible assets, a $16.1 million increase in cash paid for interest, a $6.7 million decrease in distributions from unconsolidated affiliates, and a $16.1 million decrease from all other operating activities. Partially offsetting these decreases was an $80.4 million increase in deferred revenue related to the rescheduling of the 146th Kentucky Oaks and Derby.
- Cash used in investing activities decreased $522.1 million driven by a $410.1 million decrease in investments in and advances to unconsolidated affiliates related to our equity investment in Midwest Gaming in the first quarter of 2019, a $172.1 million decrease due to the Presque Isle Transaction in the first quarter of 2019, a $22.1 million decrease due to costs associated with the acquisition of our Pennsylvania gaming license in the second quarter of 2019, and a $3.3 million decrease in cash used in all other investing activities. Partially offsetting these decreases was an $85.5 million increase in capital project expenditures primarily related to the construction of Oak Grove.
- Cash provided by financing activities increased $99.6 million primarily driven by a $94.7 million increase in net borrowings from long-term debt, a $17.1 million decrease in common stock repurchases, and a $0.5 million increase from all other financing activities. Partially offsetting these increases was a $12.7 million increase in cash settlement of stock awards.

***Credit Facilities and Indebtedness***

The following table presents our debt outstanding and debt issuance costs:

| *(in millions)* | June 30, 2020 | December 31, 2019 | Change |
|---|---|---|---|
| Term Loan B due 2024 | $ 390.0 | $ 392.0 | $ (2.0) |
| Revolver | 694.6 | — | 694.6 |
| 2027 Senior Notes | 600.0 | 600.0 | — |
| 2028 Senior Notes | 500.0 | 500.0 | — |
| Total debt | 2,184.6 | 1,492.0 | 692.6 |
| Current maturities of long-term debt | 4.0 | 4.0 | — |
| Total debt, net of current maturities | 2,180.6 | 1,488.0 | 692.6 |
| Issuance cost and fees | (16.7) | (18.1) | 1.4 |
| Total debt, net of current maturities | $ 2,163.9 | $ 1,469.9 | $ 694.0 |

***Credit Agreement***

On December 27, 2017, we entered into the Credit Agreement (as defined below) with a syndicate of lenders. The Credit Agreement provides for a $700.0 million revolving credit facility (the "Revolver") and a $400.0 million Senior Secured Term Loan B (the "Term Loan B" and together with the Revolver, the "Credit Agreement"). 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. The Credit Amendment is secured by substantially all of the 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 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 Credit Agreement also contains financial covenants providing for the maintenance of a maximum consolidated secured net leverage ratio and maintenance of a minimum consolidated interest coverage ratio. Although the Company was not required to meet its financial covenants under our Credit Agreement at June 30, 2020 (as a result of the Second Amendment to the Credit Agreement), the Company was in compliance with all such applicable covenants at June 30, 2020.

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 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 June 30, 2020, the Company's commitment fee rate was 0.30%.

As a result of the Company's Credit Agreement, the Company capitalized $2.0 million of debt issuance costs associated with the Revolver which will be amortized as interest expense over 5 years. The Company also capitalized $5.4 million of deferred financing costs associated with the Term Loan B which will be amortized as interest expense over 7 years.

On March 16, 2020, the Company entered into the First Amendment (the “First Amendment”) to its Credit Agreement. The First Amendment extends the maturity for the Revolver to at least September 27, 2024, which is 91 days prior to the latest maturity date of the Company’s term loan facility on December 27, 2024. Previously, the maturity date of the Revolver was December 27, 2022.

The interest rates applicable to the Company’s borrowings under the Credit Agreement are LIBOR-based plus a spread, determined by the Company’s consolidated total net leverage ratio. The First Amendment, among other things, lowers the upper limit of the applied spreads with respect to revolving loans from 2.25% to 1.75% and for commitment fees with respect thereto from 0.35% to 0.30%, and generally offers a reduced pricing schedule for outstanding borrowings and commitment fees with respect to the Revolver across all other leverage pricing levels. The interest rates applicable to borrowings under the facilities are LIBOR-based plus a spread, determined by the Company’s consolidated total net leverage ratio. The First Amendment does not alter the Company’s borrowing capacity. The Company capitalized $2.0 million of debt issuance costs associated with the First Amendment, which are amortized as interest expense over the remaining duration of the Credit Agreement.

On March 16, 2020, we borrowed $675.4 million on our Revolver to provide the Company with additional financial flexibility, which provided the Company with $649.2 million of cash and cash equivalents as of June 30, 2020. The Company was in compliance with all applicable covenants in the Credit Agreement at June 30, 2020.

On April 28, 2020, the Company entered into the Second Amendment to its Credit Agreement, which (i) provides for a financial covenant relief period through the date on which the Company delivers its quarterly financial statements and compliance certificate for the fiscal quarter ending June 30, 2021, subject to certain exceptions (the “Financial Covenant Relief Period”), (ii) amends the definition of “Consolidated EBITDA” in the Credit Agreement with respect to the calculation of Consolidated EBITDA for the first two fiscal quarters after the termination of the Financial Covenant Relief Period, (iii) extends certain deadlines and makes certain other amendments to the Company’s financial reporting obligations, (iv) places certain restrictions on restricted payments during the Financial Covenant Relief Period, and (v) amends the definitions of “Material Adverse Effect” and “License Revocation” in the Credit Agreement to take into consideration COVID-19.

During the Financial Covenant Relief Period, the Company will not be required to comply with the consolidated total secured net leverage ratio financial covenant and the interest coverage ratio financial covenant. The Company has agreed to a minimum liquidity financial covenant that requires the Company and its restricted subsidiaries to maintain liquidity of at least $150.0 million during the Financial Covenant Relief Period.

***2027 Senior Notes***

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

In connection with the issuance of the 2028 Senior Notes, the Company and the 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 June 30, 2020, are estimated as follows:

| *(in millions)* | July 1 to December 31, 2020 | 2021-2022 | 2023-2024 | Thereafter | Total |
|---|---|---|---|---|---|
| Term Loan B | $ 2.0 | $ 8.0 | $ 380.0 | $ — | $ 390.0 |
| Interest on Term Loan B(1) | 4.0 | 15.8 | 15.5 | — | 35.3 |
| Revolver | — | — | — | 694.6 | 694.6 |
| Interest on Revolver | 7.2 | 28.1 | 28.1 | 2.9 | 66.3 |
| 2027 Senior Notes | — | — | — | 600.0 | 600.0 |
| 2028 Senior Notes | — | — | — | 500.0 | 500.0 |
| Interest on 2027 Senior Notes | 16.5 | 66.0 | 66.0 | 82.5 | 231.0 |
| Interest on 2028 Senior Notes | 11.9 | 47.5 | 47.5 | 83.1 | 190.0 |
| Operating leases | 2.9 | 9.7 | 7.6 | 9.1 | 29.3 |
| Total | $ 44.5 | $ 175.1 | $ 544.7 | $ 1,972.2 | $ 2,736.5 |

(1) Interest includes the estimated contractual payments under our Credit Agreement assuming no change in the weighted average borrowing rate of 3.60% which was the rate in place as of June 30, 2020.

As of June 30, 2020, we had approximately $1.7 million of tax liabilities related to unrecognized tax benefits.

## ITEM 3. 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, including the impact of the COVID-19 pandemic. The pandemic has resulted in and is expected to continue to result in significant disruptions in economic activity and financial markets. 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, our 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 June 30, 2020, we had $1,084.6 million outstanding under our Credit Agreement, which bears interest at 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 our variable rate would reduce net income and cash flows from operating activities by $7.6 million.

## ITEM 4. CONTROLS AND PROCEDURES

***Evaluation 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 file 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 June 30, 2020. 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.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The following descriptions include updates since the filing of our Annual Report on Form 10-K for the year ended December 31, 2019, relating to the proceedings involving the Company. In addition to the matters described below, we are also involved in ordinary routine litigation matters which are incidental to our business. Refer to Note 16, Contingencies, to our condensed consolidated financial statements, for further information.

### *Kater Class Action Suit*

On April 17, 2015, the Kater litigation was filed in 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, 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. As previously disclosed, on January 9, 2018, the Company sold Big Fish Games to Aristocrat, an indirect, wholly owned subsidiary of Aristocrat Leisure Limited, an Australian corporation, pursuant to the Stock Purchase Agreement. Pursuant to the terms of the Stock Purchase Agreement, the Company agreed to indemnify Aristocrat 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."

After the Washington District Court dismissed the case with prejudice on November 19, 2015, the United States Court of Appeals for the Ninth Circuit reversed and remanded the Washington District Court's dismissal of the complaint on March 28, 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. Prior disclosures in our filings with the Securities and Exchange Commission have identified the extensive procedural history associated with this case.

As previously disclosed, on May 22, 2020, the parties entered into an agreement in principle to settle the Kater litigation and the Thimmegowda litigation. The agreement in principle remains contingent on final court approval by the Washington District Court. Under the terms of the settlement, which will take effect only after final court approval of the proposed class settlement: (i) a total of $155.0 million will be paid into a settlement fund. CDI will pay $124.0 million of the settlement from its available cash; Aristocrat will pay $31.0 million of the settlement; (ii) all members of the nationwide settlement class who do not exclude themselves will release all claims relating to the subject matter of the lawsuits; and (iii) Aristocrat has agreed to specifically release CDI of any and all indemnification obligations under the Stock Purchase Agreement arising from or related to the Kater and Thimmegowda litigations, including any claims of diminution of value of Big Fish Games and any claims by any person who opts out of the proposed class settlement.

On July 24, 2020, the plaintiffs filed a motion for preliminary approval of the settlement.

### *Thimmegowda Class Action Suit*

On February 11, 2019, the Thimmegowda litigation 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. Prior disclosures in our filings with the Securities and Exchange Commission have identified the extensive procedural history associated with this case.

As previously disclosed, on May 22, 2020, the parties entered into an agreement in principle to settle the Kater and Thimmegowda litigations. The agreement in principle with respect to the Thimmegowda litigation is described above, under the "Kater Class Action Suit."

### *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 appealed 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. In late 2019, the parties submitted briefs on threshold legal issues per a directive from the Franklin County Court and, thereafter, on February 27, 2020, Petitioners filed a voluntary motion to dismiss their appeal with prejudice. The Court granted that motion and dismissed the appeal with prejudice on April 8, 2020.

***Louisiana Horsemens' 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, LLC and Churchill Downs Louisiana Video Poker Company, LLC ("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 was set for April 27, 2020, but has been postponed to October 7-9, 2020, as a result of court closures due to the COVID-19 pandemic. 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 allocates 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. On June 13, 2020, the legislation addressed in the settlement agreement was passed by the legislature and signed into law by the Governor of Louisiana. 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. After the parties entered into the settlement, legal counsel for six objecting, named plaintiffs filed an amended petition with the District Court. After a hearing on July 20, 2020, the District Court dismissed the amended petition. The objecting plaintiffs have filed a notice of their intention to seek a writ with the United States Court of Appeals for the Fourth Circuit related to the dismissal of the amended petition.

## ITEM 1A. RISK FACTORS

The following description includes updates to a risk factor previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, as supplemented by Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020.

***The current novel coronavirus (COVID-19) pandemic has adversely affected, and could continue to adversely affect our business, financial condition and financial results. Other major public health issues could adversely affect our business, financial condition and financial results in the future***

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. Considerable uncertainty still surrounds the COVID-19 virus and its potential effects, and the extent of and effectiveness of responses taken on international, national and local levels. Measures taken to limit the impact of COVID-19, including shelter-in-place orders, social distancing measures, travel bans and restrictions, and business and government shutdowns, have resulted and continue to result in significant negative economic impacts in the United States and in relation to our business. The long-term impact of COVID-19 on the United States and world economies and continued impact on our business remains uncertain, the duration and scope of which cannot currently be predicted.

Our operating results depend, in large part, on revenues derived from customers visiting our casinos and racetracks. In March 2020, we announced the temporary suspension of operations of all of our wholly-owned gaming properties, certain wholly-owned racing operations, and the two casino properties related to our equity investments. Starting in mid-February, U.S. and international sporting events were cancelled, which reduced our sports betting options for our customers. Horse racing content for wagering on TwinSpires also decreased, although handle increased as our customers wagered more on the content that was available.

We began reopening the majority of our Gaming properties in May and June of 2020 under certain restrictions, such as patron capacity limitations as well as gaming machines and table game restrictions. We also implemented other initiatives to facilitate social distancing and enhanced cleaning, such as increased frequency of cleaning and sanitizing of all high-touch surfaces, mandatory temperature checks of all guests and team members upon entry and required training for all team members on safety protocols. Certain amenities have been suspended, including certain restaurants and food outlets, all of our food buffets, and valet services for certain properties. However, despite these reopenings, COVID-19 could result in continuing suspensions of operations at our casino and racetrack properties; for example, we had to temporarily suspend operations again at Calder Casino in July 2020, following an issuance of a Miami-Dade Emergency Order by the county mayor to close all entertainment venues in the Miami, Florida area. We cannot predict how soon our casino and racetrack properties will be able to return to customary operations. Our ability to return to our customary operations will depend, in part, on the actions of a number of governmental bodies over which we have no control. Once all restrictions are lifted, it is unclear how quickly customers will return to our casinos and racetracks, which may be a function of continued concerns over safety and decreased consumer spending due to economic conditions, including job losses.

As noted above, COVID-19 makes it more challenging for management to estimate the future performance of our businesses. As previously announced, we rescheduled the 146th Kentucky Oaks and Derby from May 1-2, 2020 to September 4-5, 2020. On June 24, 2020, we received approval from the Governor of Kentucky and state public health officials for its plan to allow limited spectators to attend the Kentucky Derby week events held September 1-5, 2020. In light of the uncertainties surrounding COVID-19, it is unclear how willing spectators will be to attend the events during the Kentucky Derby week and how our operating results and business will ultimately be impacted by conducting the Kentucky Derby week in accordance with the applicable guidelines.

We have temporarily furloughed certain employees and implemented a Company-wide temporary decrease in base salary for non-furloughed salaried employees. The decrease in base salary for non-furloughed employees will end with their start of the employee's first full pay period subsequent to July 31, 2020. The Company continues to provide health, dental, vision and life insurance benefits to furloughed employees at our wholly-owned properties through July 31, 2020. We cannot predict such employees’ willingness to remain with the Company during such furlough until our regular operations are restored. These actions could prevent us from engaging in certain initiatives to improve the performance of our business, due to an insufficiency of workforce size or an insufficiency of certain required skills, and could prevent us from executing initiatives effectively, which could have an adverse effect on our financial results, business and prospects.

Certain non-furloughed employees are working from remote/work-at-home locations. An extended period of remote work arrangements could strain our business continuity plans, introduce operational risk (including but not limited to cybersecurity risks) and may impair our ability to manage our business. We also outsource certain business activities to third parties. As a result, we rely upon the successful implementation and execution of the business continuity planning of such entities in the current environment. While we seek to monitor the business continuity activities of these third parties, successful implementation and execution of their business continuity strategies are largely outside our control. If one or more of the third parties to whom we outsource certain business activities experience operational failures or business disruption as a result of the impacts from the spread of COVID-19, or claim that they cannot perform, it may have negative effects on our business and financial condition.

Our liquidity and financial position could be negatively impacted if the current economic and workforce conditions continue for a significant period of time. In March 2020, we borrowed $675.4 million under our revolving credit facility pursuant to our Credit Agreement, in order to provide us with additional liquidity and financial flexibility. In April 2020, we entered into a Second Amendment to our Credit Agreement which, among other things, provides for a financial covenant relief period through the date on which we deliver our quarterly financial statements and compliance certificate for the fiscal quarter ending June 30, 2021, subject to certain exceptions. However, there can be no assurance that our current cash from operations, the funds drawn from our revolver and other potentials sources of cash will be sufficient for our operating needs and our capital projects. In such event, we may need to take further actions, including further cost-cutting, reductions in capital expenditures and other cost-saving measures.

We are currently following the recommendations of local and federal health authorities to minimize exposure risk for our various stakeholders, including employees. The full extent of the impact of COVID-19 on our business and operating results will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19 and the actions required to contain COVID-19, the duration and spread of COVID-19 within the markets in which we operate, mandates and directives from federal, state and local authorities, the effect of COVID-19 on consumer confidence and spending and our ability to maintain a sufficient workforce. Further, if we do not respond appropriately to the pandemic, or if state and local authorities or customers do not perceive our response to be adequate, we could suffer damage to our reputation and our brand, which could adversely affect our business in the future.

The COVID-19 pandemic may also have the effect of heightening many of the other risks described in Part I, Item 1A, Risk Factors, of our 2019 Annual Report on Form 10-K.

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

Our operating results depend, in large part, on revenues derived from customers visiting our casinos and racetracks, which is subject to the occurrence and threat of extraordinary events that may discourage attendance or expose us to substantial liability. In particular, 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. 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, safety and additional national or local catastrophic incidents, could result in reduced attendance at Churchill Downs Racetrack and at our other locations. A major epidemic or pandemic, or the threat of such an event, could also adversely affect attendance and could impact the supply chain for our major construction projects resulting in higher costs and delays of the projects. The COVID-19 pandemic resulted in the temporary suspension of operations of all of our wholly-owned gaming properties, certain wholly-owned racing operations, and the two casino properties related to our equity investments. Even when reopened, such properties are subject to operational restrictions that may impact attendance. Riots, civil insurrection or social unrest could adversely affect attendance. During the second quarter of 2020, certain areas of Louisville, Kentucky, experienced sustained protests and civil unrest, and continues to experience such demonstrations and civil unrest, which could adversely affect attendance at Churchill Downs Racetrack. While we are constantly evaluating our 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 our locations, particularly at Churchill Downs Racetrack, could have a material negative effect on our business and results of operations.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

***Issuer Purchases of Common Stock***

The following table provides information with respect to shares of common stock that we repurchased during the quarter ended June 30, 2020:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in millions) (1) |
|---|---|---|---|---|
| 04/1/20-04/30/20 | — | $ — | — | $ 147.1 |
| 05/1/20-05/31/20 | 108 | 99.55 | — | 147.1 |
| 06/1/20-06/30/20 | — | — | — | 147.1 |
| Total | 108 | $ 99.55 | — | |

(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. The new program replaces the prior $250.0 million program that was authorized in April 2017 and had unused authorization of $78.3 million. The repurchase program has no time limit and may be suspended or discontinued at any time.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

| Number | Description | By Reference To |
|---|---|---|
| 10.1 | Second Amendment to Credit Agreement, dated April 28, 2020, among Churchill Downs Incorporated, the subsidiary guarantors party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A., and PNC Bank, National Association | Exhibit 10.1 to Current Report on Form 8-K filed April 29, 2020 |
| 31(a) | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* | |
| 31(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 | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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 | |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | |
| 104 | Cover Page Interactive Data File (embedded as Inline XBRL and contained in Exhibit 101) | |
| | *filed herewith | |
| | **furnished herewith | |

## SIGNATURES

Pursuant to the requirements 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**

| | |
|---|---|
| July 29, 2020 | /s/ William C. Carstanjen |
| | William C. Carstanjen<br>Chief Executive Officer<br>(Principal Executive Officer) |
| July 29, 2020 | /s/ Marcia A. Dall |
| | Marcia A. Dall<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) |

**EXHIBIT 31(a)**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, William C. Carstanjen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Churchill Downs Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2020

/s/ William C. Carstanjen

William C. Carstanjen
Chief Executive Officer
(Principal Executive Officer)

**EXHIBIT 31(b)**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, Marcia A. Dall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Churchill Downs Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2020

/s/ Marcia A. Dall

Marcia A. Dall
Executive Vice President and Chief Financial Officer
(Principal Financial & Accounting Officer)

**EXHIBIT 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**

In connection with the Quarterly Report on Form 10-Q of Churchill Downs Incorporated (the "Company") for the quarterly period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William C. Carstanjen, as Chief Executive Officer (Principal Executive Officer) of the Company, and Marcia A. Dall, as Executive Vice President and Chief Financial Officer (Principal Financial & Accounting Officer) of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his or her knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William C. Carstanjen

William C. Carstanjen
Chief Executive Officer
(Principal Executive Officer)

July 29, 2020

/s/ Marcia A. Dall

Marcia A. Dall
Executive Vice President and Chief Financial Officer
(Principal Financial & Accounting Officer)

July 29, 2020

This certification is being furnished to the Securities and Exchange Commission as an exhibit to the Report and shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Churchill Downs Incorporated and will be retained by Churchill Downs Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.