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

FORM 8-K/A

(Amendment No. 1)

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

Date of Report (Date of earliest event reported): November 1, 2022

Churchill Downs Incorporated

(Exact name of registrant as specified in its charter)

Kentucky	001-33998	61-0156015
(State or other jurisdiction of incorporation)	(Commission File Number)	(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)

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions.

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule l4a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

Explanatory Note

This Amendment No. 1 to Form 8-K (this "Form 8-K/A") is an amendment to the Current Report on Form 8-K filed with the Securities and Exchange Commission by Churchill Downs Incorporated ("CDI") on November 1, 2022 (the "Original Form 8-K"). The Original Form 8-K reported that, on November 1, 2022, CDI completed its previously announced acquisition of the following properties from Peninsula Pacific Entertainment Holdings, LLC: Colonial Downs Racetrack in New Kent, Virginia, six historical racing entertainment venues across Virginia, del Lago Resort & Casino in Waterloo, New York, and the Hard Rock Hotel & Casino in Sioux City, Iowa.

CDI is filing this Form 8-K/A solely to amend and supplement Item 9.01 of the Original Form 8-K to provide the required financial statements and pro forma financial information. This Form 8-K/A does not otherwise update, modify or amend the Original Form 8-K and should be read in conjunction with the Original Form 8-K.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

The following financial statements are filed as Exhibits 99.1 and 99.2 and are incorporated by reference in this report:

The audited combined and consolidated financial statements of Peninsula Pacific Entertainment, LLC ("P2E"), including the consolidated balance sheet as of December 31, 2021 and the related combined and consolidated statements of operations, changes in member's equity (deficit), and cash flows for the year ended, and the related notes thereto; and

The unaudited condensed consolidated financial statements of P2E, including the condensed consolidated balance sheet as of September 30, 2022 and the related condensed consolidated statements of operations, changes in member's equity (deficit), and cash flows for the nine-months ended September 30, 2022, and the related notes to the condensed consolidated financial statements.

(b) Pro Forma Financial Information

The following pro forma information of CDI after giving effect to the acquisition of P2E is filed as Exhibit 99.3 and is incorporated by reference in this report.

The unaudited pro forma condensed combined balance sheet as of September 30, 2022

The unaudited pro forma condensed combined statement of income for the nine months ended September 30, 2022; and

The unaudited pro forma condensed combined statement of income for the year ended December 31, 2021.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number	Description
23.1	Consent of Deloitte & Touche LLP, independent auditor of P2E.
99.1	Audited combined and consolidated financial statements of P2E as of and for the year ended December 31, 2021 together with the notes thereto and the independent auditor's report thereon.
99.2	Unaudited condensed consolidated financial statements of P2E as of and for the nine-months ended September 30, 2022 together with the notes thereto.
99.3	Unaudited pro forma condensed combined balance sheet and statement of income of CDI as of and for the nine months ended September 30, 2022; and the unaudited pro forma condensed combined statement of income for the year ended December 31, 2021.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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 hereunto, duly authorized.

	CHURCHILL DOWNS INCORPORATED
January 17, 2023	/s/ Marcia A. Dall
	By: Marcia A. Dall
	Title: Executive Vice President and Chief Financial Officer
	(Principal Financial and Accounting Officer)

CONSENT OF INDEPENDENT AUDITOR

We consent to the incorporation by reference in Registration Statement Nos. 333-210943, 333-197102, 333-182929, 333-182928, 333-144192, 333-144191, 333-144182, 333-135360, 333-127057, 333-116734, 333-116733, 333-106310, 333-100574, 333-43486, 333-41376, 333-62013, and 033-61111 on Form S-8 of Churchill Downs Incorporated of our report dated March 8, 2022 (October 3, 2022 as to the subsequent events described in Note 12), relating to the combined and consolidated financial statements of Peninsula Pacific Entertainment, LLC appearing in this Current Report on Form 8-K/A dated January 17, 2023.

/s/ Deloitte & Touche LLP

Davenport, Iowa
January 17, 2023

Peninsula Pacific Entertainment, LLC

Combined and Consolidated Financial Statements
as of and for the year ended December 31, 2021
and Independent Auditor's Report

PENINSULA PACIFIC ENTERTAINMENT, LLC
TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

Peninsula Pacific Entertainment, LLC

Opinion

We have audited the accompanying combined and consolidated financial statements of Peninsula Pacific Entertainment, LLC and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2021, and the related combined and consolidated statement of operations, changes in member's equity (deficit), and cash flows for the year then ended, and the related notes to the combined and consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter Regarding Revisions to Previously Issued Financial Statements to Comply with Securities and Exchange Commission ("SEC") Regulation S-X

As discussed in Note 12 to the financial statements, the Company revised its previously issued financial statements to comply with SEC Regulation S-X. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Contribution of Lago Resort & Casino, LLC

As discussed in Notes 1 and 2 to the financial statements, such financial statements give retrospective effect to the April 20, 2021 contribution of Lago Resort & Casino, LLC from various direct and indirect wholly owned subsidiaries of PGP Investors, LLC, as combination of entities under common control and accounted for in a manner similar to a pooling of interests. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Purchase Agreement with Churchill Downs Incorporated

As discussed in Note 11 to the financial statements, on February 18, 2022, Peninsula Pacific Entertainment Intermediate Holdings, LLC, the Company's direct parent, entered into a definitive purchase agreement with Churchill Downs Incorporated to acquire substantially all of the assets of the Company. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ DELOITTE & TOUCHE LLP
Davenport, Iowa

March 8, 2022 (October 3, 2022 as to Note 12)

PENINSULA PACIFIC ENTERTAINMENT, LLC
CONSOLIDATED BALANCE SHEET

(in thousands)

		December 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$	129,014
Restricted cash		2,879
Receivables		16,763
Other current assets		6,788
Total current assets		155,444
PROPERTY AND EQUIPMENT, NET		512,148
OTHER ASSETS:		
Intangible assets, net		170,885
Goodwill, net		23,038
Other assets		10,178
Total other assets		204,101
TOTAL	$	871,693
LIABILITIES AND MEMBER'S DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$	3,024
Capital project payable		2,881
Accrued interest		9,232
Other accrued expenses		57,023
Current maturity of long-term debt		—
Total current liabilities		72,160
LONG-TERM LIABILITIES		
Long-term debt, net		836,274
Minimum assessment agreement		10,523
Total long-term liabilities		846,797
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
MEMBER'S DEFICIT:		
Common member's interest		362,505
Accumulated deficit		(409,769)
Total member's deficit		(47,264)
TOTAL	$	871,693

See notes to combined and consolidated financial statements.

PENINSULA PACIFIC ENTERTAINMENT, LLC
COMBINED AND CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands)

		Year Ended December 31, 2021
REVENUES:		
Historical horse racing	$	271,098
Gaming		227,676
Live and simulcast racing		7,902
Food and beverage		21,732
Hotel		9,014
Other		19,085
Total revenues		556,507
EXPENSES:		
Historical horse racing		104,555
Gaming		90,331
Live and simulcast racing		9,602
Food and beverage		18,600
Hotel		3,956
Marketing		20,940
General and administrative		155,355
Other		6,145
Management fees		20,742
Depreciation and amortization		45,244
Development expense		21,619
Pre-opening expense		1,136
Loss on disposal		463
Impairment of assets		11,730
Total expenses		510,418
INCOME FROM OPERATIONS		46,089
OTHER INCOME (EXPENSE):		
Interest income		330
Interest expense		(81,540)
Loss on extinguishment of debt, net		(2,636)
Total other expense		(83,846)
NET LOSS	$	(37,757)

See notes to combined and consolidated financial statements.

PENINSULA PACIFIC ENTERTAINMENT, LLC
COMBINED AND CONSOLIDATED STATEMENT OF CHANGES IN MEMBER'S EQUITY (DEFICIT)

(in thousands)

	COMMON MEMBER'S INTEREST	ACCUMULATED DEFICIT	MINORITY INTEREST	TOTAL MEMBER'S EQUITY (DEFICIT)
BALANCE, DECEMBER 31, 2020	$ 331,014	$ (372,012)	$ 3,250	$ (37,748)
Member contributions	93,165	—	—	93,165
Member distributions	(61,674)	—	—	(61,674)
Purchase of minority interest	—	—	(3,250)	(3,250)
Net loss	—	(37,757)	—	(37,757)
BALANCE, DECEMBER 31, 2021	$ 362,505	$ (409,769)	$ —	$ (47,264)

See notes to combined and consolidated financial statements.

PENINSULA PACIFIC ENTERTAINMENT, LLC
COMBINED AND CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

		Year Ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$	(37,757)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization		45,244
Non-cash contribution from member		87,169
Non-cash interest		5,966
Non-cash other		264
Loss on disposal		463
Non-cash extinguishment of debt		2,636
Impairment of assets		11,730
Changes in operating assets and liabilities:		
Receivables		(8,760)
Other assets		77
Accounts payable		(1,426)
Accrued expenses		3,972
Net cash flows from operating activities		109,578
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment		(60,038)
Proceeds from sale of property and equipment		859
Other		(9,428)
Net cash flows from investing activities		(68,607)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on revolving credit facility		(10,000)
Proceeds from senior notes		396,563
Payments on debt		(344,059)
Deferred financing costs		(15,851)
Purchase of minority interest		(3,250)
Member contributions		5,996
Member distributions		(55,996)
Net cash flows from financing activities		(26,597)
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH		14,374
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD		117,519
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$	131,893
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest, net of amounts capitalized	$	84,226
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment acquired, but not paid	$	2,948
Distribution of promissory notes to member		5,678

See notes to combined and consolidated financial statements.

(in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Peninsula Pacific Entertainment, LLC (the "Company", "P2E", "we", "us" or "our"), a Delaware limited liability company, was formed on February 7, 2018. The Company is an indirect wholly owned subsidiary of Peninsula Pacific Entertainment Holdings, LLC ("P2E Holdings"). P2E Holdings is 100% owned by PGP Investors, LLC ("PGPI"), subject to profits interests equal to approximately 18% of the profits above certain distribution thresholds. The Company's significant wholly owned subsidiaries include (i) Colonial Downs Group, LLC, (ii) SCE Partners, LLC (as of October 23, 2020), (iii) Lago Resort & Casino, LLC, (iv) AZD Holdings, LLC, (v) Richmond VA Development, LLC, (vi) RVA Holdings Group, LLC, (vii) Legends Holding, LLC, (viii) Cedar Rapids Funding, LLC, and (ix) Peninsula Pacific Entertainment Finance, Inc.

Colonial Downs Group, LLC ("CDG"), a Delaware limited liability company acquired the Colonial Downs Racetrack in New Kent, Virginia ("Colonial Downs") on April 25, 2018. Operations at each of our CDG properties commenced as follows:

Colonial Downs Racetrack and Rosie's Gaming Emporium	April 2019
Vinton Rosie's Gaming Emporium	May 2019
Richmond Rosie's Gaming Emporium	June 2019
Hampton Rosie's Gaming Emporium	October 2019
Dumfries Rosie's Gaming Emporium	January 2021
Collinsville Rosie's Game Room	July 2021

The CDG facilities collectively include 2,687 historical horse racing ("HHR") machines, pari-mutual simulcast wagering and live racing at Colonial Downs. Each facility has a casual dining restaurant, and a casino bar. Collectively, these entities are referred to as the "CDG Properties".

SCE Partners, LLC ("SCE"), an Iowa limited liability company, owns and operates the Hard Rock Hotel and Casino Sioux City in Sioux City, Iowa ("HRSC"). As of December 31, 2021, HRSC included approximately 642 slot machines, 21 table games, a sports book, a 54-room AAA-rated Four Diamond hotel, indoor and outdoor entertainment venues, and several food, beverage and retail outlets.

Lago Resort & Casino, LLC ("Lago"), a Delaware limited liability company, owns and operates del Lago Resort & Casino in Tyre, New York ("del Lago"). As of December 31, 2021, Lago includes 1,702 slot machines, 66 table games, 14 poker tables, a sportsbook, a 205-room hotel, a 1,600 seat entertainment venue, and several food, beverage and retail outlets.

AZD Holdings, LLC ("AZD"), a Delaware limited liability company, was formed on January 26, 2021, and holds an option (exercisable prior to May 31, 2024) to acquire all the equity interests in, or all or substantially all of the assets of Arizona Downs, LLC, which owns and operates the Arizona Downs Racetrack in Prescott, Arizona. Under the Sale and Purchase Option Agreement (which can be terminated by AZD at any time), AZD is obligated to provide funding for mutually agreed expenses of the annual race meets to be held at the Arizona Downs Racetrack (not to exceed $3.5 million per meet for the 2021 meet and $2.0 million thereafter) as well as certain other operating and other expenses.

Richmond VA Development, LLC ("RVA DEV"), a Delaware limited liability company, was formed on January 15, 2021, and has entered into an agreement to provide development services to the casino development in Richmond, Virginia which is associated with the Urban One Venture (as defined below).

RVA Holdings Group, LLC ("RVA"), a Delaware limited liability company, was formed on March 10, 2020. RVA holds a preferred stock interest in an entity controlled by Urban One, Inc. (the "Urban One Venture") which was formed to pursue a gaming development in the city of Richmond, Virginia. On November 2, 2021, the referendum required for this development opportunity to move forward did not pass. In January 2022, the Richmond City Council voted to re-select the Urban One Venture as the preferred casino operator which is subject to recertification by the Virginia Lottery Board ("VLB"). The VLB is currently reviewing pre-certification materials for the owner and its subsidiaries. Upon approval of pre-certification by the VLB, the City of Richmond may petition the courts to order the referendum question for the Urban One Venture added to the November 2022 ballot. If the referendum is not placed on the November 2022 ballot or the referendum does not pass, the $6.5 million in escrow will be returned to the Company.

Legends Holding, LLC ("Legends"), a Delaware limited liability company, owns (and operated until its closure in March 2020) the Louisiana Riverboat Gaming Partnership d/b/a DiamondJacks Casino & Resort ("DiamondJacks") in Bossier City, Louisiana. Legends also owns NS-LA Properties, LLC ("NS-LA"), a Delaware limited liability company, which together with its subsidiaries, owns real property in Louisiana.

Cedar Rapids Funding, LLC ("CRF"), a Delaware limited liability company, was formed on August 23, 2013. CRF had no significant assets or operations and was formed to pursue a casino development opportunity in Cedar Rapids, Iowa.

Towards the end of December 2019, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally and on March 11, 2020 the World Health Organization declared the outbreak to be a global pandemic. As a result, there have been directives from federal, state and local authorities resulting in the closure of the Company's properties in mid-March 2020, which negatively impacted the Company's business. The CDG properties reopened on July 1, 2020 with certain restrictions and guidelines in place including limitations on the number of active and operational HHR machines, occupancy limitations, limitations on operating hours, and limitations on food and beverage service. On May 28, 2021, Virginia's universal indoor mask mandate, social distancing and capacity restrictions were lifted. HRSC was authorized and reopened on June 1, 2020, with certain restrictions, including limitations on the number of active and operational slot machines, the number of seats available at table games, and the hotel remained closed until July 1, 2020. In February 2021, all of these state mandated restrictions for HRSC were lifted. Lago reopened on September 9, 2020 with certain restrictions including limitations on the number of active and operational slot machines, the number of seats available at table games, limitations on hours of operation and food and beverage on the casino floor, and entertainment events. In June 2021, all of these state mandated restrictions for Lago were lifted.

On May 15, 2020, Legends announced the facility would not reopen due to business circumstances caused by the unexpected impact of the COVID-19 pandemic. The property will be maintained as the Company continues to assess its strategic opportunities in relation to Legends' gaming license. On February 9, 2022, Legends Gaming, LLC entered into a letter of intent to sell its equity interests and the equity interests of certain of its subsidiaries, including the entity that owns DiamondJacks and the related gaming license (the "Letter of Intent"). The Letter of Intent provides for a good faith negotiating period through April 14, 2022 to negotiate a binding purchase agreement. On February 17, 2022, Legends Gaming Riverboat Partnership (DiamondJacks) submitted a petition to the Louisiana Gaming Control Board (the "LGCB") notifying the LGCB that it has decided not to reopen DiamondJacks as a result of the current conditions in the Bossier City gaming market and that it is pursuing a sale of DiamondJacks pursuant to the Letter of Intent. The LGCB granted Legends a 60-day period to pursue the negotiation and execution of definitive documentation for such a sale.

On October 23, 2020, the Company and Peninsula Pacific Entertainment Finance, Inc., as co-issuers (together the "Issuers") issued $475.0 million in aggregate principal amount of 8.50% Senior Notes due 2027 ("Senior Notes") issued under the indenture dated October 23, 2020 (along with its supplements, collectively the "indenture"). The net proceeds from the Senior Notes were used, among other things, to acquire the 50% equity interest in SCE owned by Sioux City Entertainment, Inc., repay certain outstanding indebtedness of SCE, repay all outstanding indebtedness under the former P2E revolving credit and term loan facility, pay fees and expenses related to the offering, and for general corporate purposes. On February 8, 2021, the Issuers issued an additional $75.0 million in aggregate principal of Senior Notes under the indenture at an issue price of 106.75% plus accrued and unpaid interest from October 23, 2020 and the net proceeds of such were used for general corporate purposes. On April 20, 2021, the Issuers issued and additional $300.0 million in aggregate principal of Senior Notes under the indenture at an issue price of 105.50% plus accrued and unpaid interest from October 23, 2020 and the net proceeds of such were used, among other things, to purchase certain minority interests in WILPAC Holding, LLC ("WILPAC"), repay the outstanding indebtedness of Lago, and pay fees and expenses related to the offering. See Note 6.

On April 20, 2021, pursuant to a Membership Interest Purchase Agreement dated April 6, 2021, the Company purchased the minority non-voting interests in WILPAC, which owned 100% of the ownership interests in Lago for $3.25 million. The remainder of the interests in WILPAC were owned by PGPI through its various direct and indirect wholly owned subsidiaries which were contributed to P2E Holdings and WILPAC merged with and into P2E Holdings. Following the consummation of this transaction, P2E Holdings contributed its equity interests in Lago to P2E (via an intermediary holding company), and combined with the equity interests purchased by the Company, resulted in Lago becoming a wholly owned subsidiary of the Company on April 20, 2021. See Note 2.

On September 21, 2021, the Dumfries Town Council approved The Rose resort casino. The property, which will replace Rosie's Dumfries, will feature 50,000 square-feet of gaming space, a 305-room hotel, food and beverage offerings, a 1,500 seat theater, and a parking garage. The Company broke ground on the development on January 11, 2022 and expects the first phase to open in 2023 with all construction completed by 2026.

Basis of Presentation—The combined and consolidated financial statements include the accounts of the Company and its subsidiaries.

As described in Note 2, on April 20, 2021, P2E Holdings contributed its equity interests in Lago to the Company (via an intermediary holding company) and the contribution of Lago has been treated as a combination of entities under common control and accounted for in a manner similar to a pooling of interests. For periods prior to April 20, 2021, our historical consolidated financial statements have been combined with the financial statements of Lago.

All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents—Cash and cash equivalents include highly liquid investments with maturities of three months or less at their date of purchase, and are on deposit with high credit quality financial institutions. Although these balances may, at times, exceed the federal insured deposit limit, we believe such risk is mitigated by the quality of the institution holding such deposit. The carrying values of these instruments approximate their fair values as such balances are generally available on demand.

Restricted Cash—Restricted cash primarily consists of amounts restricted by regulation for gaming and racing purposes. These restricted cash balances are invested in highly liquid instruments with a maturity of 90 days or less. These restricted cash balances are held by high credit quality financial institutions. The carrying value of these instruments approximates their fair value due to their short maturities.

The following table provides a reconciliation of cash, cash equivalents and restricted cash balances reported within the combined and consolidated balance sheets to the total balance shown in the combined and consolidated statement of cash flows.

	December 31, 2021
Cash and cash equivalents	$ 129,014
Restricted cash	2,879
Total cash, cash equivalents and restricted cash	$ 131,893

Receivables—Receivables consist primarily of casino, hotel, and other receivables. Receivables are non-interest bearing and are initially recorded at cost. Accounts are written off when management deems the account to be uncollectible, based upon historical collection experience, the age of the receivable and other relevant economic factors. An estimated allowance for doubtful accounts is maintained to reduce our receivables to their carrying amount. As a result, the net carrying value approximates fair value.

On December 31, 2021, the New York State Gaming Commission ("Commission") recommended and the Director of the New York State Division of Budget ("Director of the Division of Budget") approved Lago's petition to reduce its slot machine revenue tax from 37% to 30% effective April 1, 2021 as Lago met the requirements for this tax relief based on the criteria included within the budget legislation issued by the New York State legislation in April 2021. Under the legislation, the Commission is directed to evaluate certain criteria when considering the provision of such tax relief, including demonstrated need, competitive landscape and employment and make a recommendation to the Director of the Division of Budget who has final approval. Such approval for the subsequent years within the five-year period, specifically, New York State Fiscal Years 2023-2026, is contingent upon Lago meeting certain criteria included within the budget legislation as outlined in a plan Lago submitted to the Commission and is subject to potential recapture in subsequent fiscal years based on the failure to meet such criteria. The Company recorded approximately $6.4 million in receivables related to this tax relief as of December 31, 2021.

Receivables also include approximately $0.4 million due to the Company pursuant to a Strategic Gaming Agreement entered into with a third party in July 2018 related to sports wagering and $0.2 million of credit and hotel receivables, net of allowance as of December 31, 2021. The Strategic Gaming Agreement requires, among other things, a minimum payment to the Company of $1.9 million per fiscal quarter (due within 30 days after the end of each fiscal quarter). The agreement is for an initial term of ten years with the third party having the right to terminate the agreement after year three. On July 13, 2021, the Company received notice that the third party exercised its right to terminate the Strategic Gaming Agreement effective October 12, 2021. Since such notification, the Company and the third party have engaged in productive negotiations and on February 15, 2022 (deemed effective October 12, 2021, the Company and the third party entered into an amended agreement regarding the operations of the physical sportsbook through February 15, 2023. During the year ended December 31, 2021, the Company recorded revenue of $6.7 million, pursuant to the Strategic Gaming Agreement; such is included in Gaming revenue and Other revenue on the combined and consolidated statement of operations.

Other Current Assets—Other current assets consist of the following:

	December 31, 2021
Prepaid expenses	$ 4,983
Other	1,805
Total	$ 6,788

Prepaid expenses include assets paid in advance such as insurance and maintenance contracts which will be amortized to operating expenses over the terms of the agreements.

Other assets consist primarily of food and beverage and retail inventory items and are stated at the lower of cost or net realizable value. Cost is determined using the first in, first out inventory method.

Property and Equipment, Net—Property and equipment are recorded at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed as incurred. These assets are depreciated on a straight-line basis over the following estimated useful lives, or the lesser of the lease term, as applicable, for leasehold improvements.

	Years
Buildings and improvements	7 - 40
Furniture, fixtures and equipment	1 - 20

For a long-lived asset to be held and used, we review the asset for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We then compare the estimated undiscounted future cash flows of the asset to the carrying value of the asset. The asset is not impaired if the undiscounted future cash flows exceed its carrying value. If the carrying value exceeds the undiscounted future cash flows, then an impairment charge is recorded, typically measured using a discounted cash flow model.

Capitalized Interest—Interest costs associated with major construction projects are capitalized as part of the cost of the constructed assets. Capitalization of interest ceases when the project (or discernible portions of the project) is substantially complete. If substantially all of the construction activities of a project are suspended, capitalization of interest will cease until such activities are resumed. Interest capitalized during the year ended December 31, 2021 was $1.0 million, and is recorded as a component of property and equipment.

Intangible Assets, Net—Intangible assets, net include gaming licenses, player relationships, the tradename at Lago, and the Strategic Gaming Agreement.

Amortizing Intangible Assets

The Strategic Gaming Agreement intangible asset represents the value of the Strategic Gaming Agreement and the payments received by Lago for operating the existing physical sportsbook within the casino as well as the potential to operate an online sportsbook pending the approval of online sports gaming in the State of New York. This intangible asset is being amortized over the remaining life of the agreement. Player relationships represent the value of repeat business associated with our player loyalty program at SCE. The player relationships intangible asset at SCE is being amortized over its approximate useful life of four years. Amortizing intangible assets shall be tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. See Note 5.

Indefinite-Lived Intangible Assets

The tradename at Lago is based on the value of our brand and reputation, which reflect the level of service and quality we provide and from which we generate repeat business.

The gaming licenses represent the values of the licenses to conduct gaming in the State of Iowa, in the State of Louisiana, and in the State of New York, which are subject to highly extensive regulatory oversight and a limitation on the number of licenses available for issuance therein. These assets, considered indefinite-lived intangible assets, are not subject to amortization, but instead are subject to an annual impairment test, performed in the fourth quarter of each year, and between annual test dates in certain circumstances. If the fair value of an indefinite-lived intangible asset is less than its carrying amount, an impairment loss is recognized equal to the difference. The Company performed a qualitative assessment that concluded that it was not more likely than not that the gaming license and tradename were impaired and thus a quantitative assessment was not necessary. See Note 5.

Goodwill, Net—Goodwill is an asset representing the future economic benefits arising from other assets in a business combination that are not individually identified and separately recognized and relates to the acquisition of SCE. Goodwill is not subject to amortization, but it is subject to an annual impairment test and between annual test dates if an event occurs or circumstances change that indicate that the fair value of the reporting unit may be below its carrying amount. The Company performed a qualitative assessment that concluded that it was not more likely than not that goodwill was impaired and thus a quantitative assessment was not necessary. See Note 5.

Other Assets—The Company entered into convertible promissory notes with an affiliated party on July 23, 2019 for $2.3 million and an additional $0.5 million on November 24, 2020, which convertible promissory notes were amended and restated in February 2021. Amounts advanced under the notes bear an interest rate of 3% and shall be paid quarterly in arrears. All outstanding principal and interest is due on July 23, 2026 unless declared due and payable by the Company or upon conversion to membership units of the affiliated party. These notes are classified as a held-to-maturity investment and is recorded at amortized cost.

On January 29, 2021, the Company entered into promissory note and security agreements which were amended and restated on March 3, 2021, for an aggregate amount of $2.9 million to certain holders of profit interests in P2E Holdings, the proceeds of which were used by the borrowers to purchase additional membership interests in an affiliated entity. Amounts advanced under the notes bear an interest rate of 8.5%, mature in September 2022, and are secured by the borrowers' membership interests in P2E Holdings.

On October 21, 2021, the Company and P2E Holdings, entered into a settlement agreement with the affiliated party and certain holders of profit interests in P2E Holdings which, among other things, assigned the convertible promissory notes and the promissory note and security agreements (collectively, the "Notes") to P2E Holdings, extinguished any outstanding debt and obligations due under the Notes and terminated the conversion feature under the convertible promissory notes.

On February 19, 2021, RVA entered into the Urban One Venture agreement and holds a preferred stock interest of up to $25 million as noted above. As of December 31, 2021, $6.5 million is recorded in other assets related to this agreement, which is the portion held in escrow as described in Note 9. The remainder of this asset previously recorded of $1.5 million was written off in the fourth quarter 2021 as the required referendum for this development opportunity to move forward did not pass.

Other assets also include favorable leasehold interests which represent the rental rates for assumed land leases that are favorable to comparable market rates at SCE which were fair valued as part of the acquisition. The fair value is determined on a technique whereby the difference between the lease rate and the then current market rate for the remaining contractual term is discounted to present value. The assumptions underlying this computation include the actual lease rates, the expected remaining lease term, including renewal options, based on the existing lease; current rates of rent for leases on comparable properties with similar terms obtained from market data and analysis; and an assumed discount rate. The resulting difference between the lease rate and the then current market value rate is recognized as rent expense and the associated discount is accreted to interest income using the effective interest method over the term of the underlying lease which cover a term of 20 to 40 years.

In addition, other assets include the fair value of the payment in lieu of property taxes agreement determined as part of the Lago purchase accounting performed in August 2019. This other asset is being amortized over the remaining life of the agreement with the Seneca County Industrial Development Agency ("IDA").

Player Loyalty Point Program—The Company has established promotional programs to encourage repeat business from frequent and active HHR and slot machine customers and other patrons. Members earn points based on gaming and HHR activity and such points can be redeemed for free slot play, food and beverage, and other free goods and services. The player loyalty point program accrual is included in Other accrued expenses on the Company's combined and consolidated balance sheets. This is the primary type of liability associated with contracts with customers and represents a deferral of HHR and gaming revenue until the customer redeems the incentives earned, and are typically expected to be redeemed and recognized within one year or sooner of being earned. The program liabilities are recorded net of an estimated "breakage" factor, which assumes that some points will expire without being redeemed; the breakage is estimated based on historical redemption rates. The Company's loyalty program liabilities were $3.2 million as of December 31, 2021.

Long-Term Debt, Net—Long-term debt, net is reported as the outstanding debt amount net of unamortized premium or discount and debt issuance costs. Debt issuance costs include legal and other direct costs related to the issuance of our outstanding debt and premium or discount represents an addition or reduction granted to the initial purchasers or lenders upon issuance of our debt instruments. Accretion of the debt issuance costs and premium or discount is recorded over the remaining contractual life of the debt using the effective interest method.

Outstanding debt existing at Lago was recorded at its estimated fair value as a result of the application of purchase accounting associated with the acquisition of the membership interests in WILPAC in 2019. In April 2021, Lago became a wholly owned subsidiary of the Company and as part of the transaction, all outstanding debt under Lago's existing debt agreements was paid in full and terminated.

Revenue Recognition—The Company's revenue from contracts with customers consists of gaming wagers, pari-mutuel wagers, food and beverage transactions, retail transactions, hotel room sales and revenues from our Strategic Gaming Agreement.

The transaction price for a gaming wagering contract is the difference between gaming wins and losses, not the total amount wagered. The transaction price for our pari-mutuel operations, inclusive of HHR operations, live racing events conducted at our racing facility and our import and export arrangements, is the commission received from the pari-mutuel pool. The transaction price for food and beverage, hotel and retail contracts is the net amount collected from the customer for such goods and services. Sales tax and other taxes collected on behalf of governmental authorities are accounted for on the net basis and are not included in revenues or expenses.

Gaming and HHR revenue contracts involve two performance obligations for those customers earning points under the Company's loyalty reward program and a single performance obligation for customers that do not participate in the program. Our pari-mutuel operations contracts involve one performance obligation. The Company applies a practical expedient by accounting for its gaming and HHR contracts on a portfolio basis as such wagers have similar characteristics and the Company reasonably expects the effects on the financial statements of applying the revenue recognition guidance to the portfolio to not differ materially from that which would result if applying the guidance to an individual wagering contract. For purposes of allocating the transaction price in a wagering contract between the wagering performance obligation and the obligation associated with the loyalty points earned, the Company allocates an amount to the loyalty point contract liability based on the stand-alone selling price of the points earned, which is determined by the value of a point that can be redeemed for slot play, HHR play and complimentaries such as food and beverage at our restaurants, lodging at our hotel and products offered at our retail stores, less estimated breakage. The allocated revenue for gaming wagers is recognized when the wagering occurs as all such wagers settle immediately. The loyalty reward contract liability amount is deferred and recognized as revenue when the customer redeems the loyalty points for slot play, HHR play and complimentaries and such goods and services are delivered to the customer.

Pari-mutuel revenue contracts are inclusive of the Company's (i) HHR, (ii) host racing facility, (iii) import arrangements that permit the Company to simulcast in live racing events occurring at other racetracks, and (iv) export arrangements that permit the Company's live racing event to be simulcast at other racetracks. Host racing facility, import and export revenues are recognized once the race event is made official by the relevant racing body. HHR revenue is recognized once the historical race has been completed on the HHR machine. The Company has concluded it is the controlling entity to the HHR, host racing facility, and export arrangements as it functions as the principal in the arrangement and is not the controlling entity to the import arrangements as it functions as the agent. Commissions earned from the pari-mutuel pool less import arrangement fees are recognized on a net-basis, which is included within live and simulcast racing revenues. Any other fees associated with these arrangements are recorded in live and simulcast racing expenses.

Food and beverage, hotel and retail services have been determined to be separate, standalone performance obligations and the transaction price for such contracts is recorded as revenue as the good or service is transferred to the customer over their stay at the hotel or when the delivery is made for the food and beverage or retail product.

The retail value of accommodations, food and beverage, and other services furnished to guests for free as an inducement to gamble is included in food, beverage, hotel and other revenue and offset as a deduction to gaming revenue and consists of the following:

(in thousands)		Year Ended December 31, 2021
Food and beverage	$	6,892
Hotel		2,800
Other		810
Total amount recorded in food and beverage, hotel and other revenues and offset to gaming revenues	$	10,502

Regulatory Taxes—The Company is subject to taxes based on gross HHR, gaming and live and simulcast racing revenues in the jurisdictions in which we operate. Lago is also subject to an annual assessment per gaming position. Taxes are assessed based on these revenues and are recorded as a HHR, gaming and live and simulcast racing expense, respectively, in the combined and consolidated statement of operations. These taxes and fees totaled approximately $103.0 million for the year ended December 31, 2021.

Advertising—Direct advertising costs are expensed the first time such advertising appears. Advertising costs are included in Marketing expense on the combined and consolidated statement of operations and totaled $6.6 million for the year ended December 31, 2021.

Equity Based Compensation—In 2018, P2E Holdings granted "profits interests" ("IUPs") under the P2E Holdings 2018 Class B Unit Plan (the "IUP Plan") to five executive officers and employees of the Company and represents in the aggregate 9.8% of the outstanding membership units of P2E Holdings as of December 31, 2021.

The terms of the awards include specified vesting schedules and acceleration of vesting upon the occurrence of certain events. The profits interests awarded under the IUP Plan entitle the holders thereof to receive distributions from P2E Holdings on a pro rata basis with all other members of P2E Holdings and distributions on liquidation, in each case only to the extent such distributions exceed the applicable distribution threshold, as defined in each IUP agreement. All of the IUP's under the IUP Plan are 100% vested.

The IUPs contain a put option exercisable by the holder that, under the terms of the agreement, can be settled in cash. As such, the IUPs are liability awards that require remeasurement at each reporting period. The Company has elected to measure its liabilities incurred under share-based payment arrangements at fair value. On a quarterly basis, the Company estimates the fair value of the IUPs and compares that value to the value of such incentive units at the date of grant.

The fair value of the incentive units is based on the probability weighted expected return method weighting both an acquisition and option pricing model 50% each. The significant assumption used in the acquisition model is the active transactions with Churchill Downs Incorporated (see Note 1).

The significant assumptions used in the option pricing model, other than the fair value of the equity of P2E Holdings described below, include:

Significant Assumptions	
Expected term	1.5 years
Asset and equity volatility	30% and 50%
Risk-free rate	0.56%
Discount for lack of marketability	15%

The most significant assumption in determining the fair value of the equity of P2E Holdings is the enterprise fair value of the Company. The enterprise fair value of the Company is calculated using the discounted cash flow (weighted 60%) and guideline public company (market) (weighted 40%) approaches. The significant assumptions used to determine the enterprise fair value using (1) the discounted cash flow approach include Company forecasts of revenues, expenses, and capital expenditures, the discount rate, and the terminal growth rate, and (2) the guideline public company (market) approach are Company forecasts of revenue and EBITDA and revenue and EBITDA multiples.

Any appreciation or depreciation in the value of the IUPs is expensed or credited to expense based on the percentage of the grant vested. For the year ended December 31, 2021, the Company was allocated $87.2 million related to the IUPs from P2E Holdings, which was recorded as expenses to general and administrative expense and a non-cash member contribution.

Preopening Expense—Costs associated with start-up activities for the development of CDG that do not qualify as capital costs are expensed as incurred.

Development Expense—Development expense primarily consists of costs incurred related to activities associated with various acquisition opportunities, strategic initiatives, and other business activities.

Income Taxes—The Company is organized and taxed as a limited liability corporation and taxed as a partnership for state and federal income tax purposes. Substantially all items of income, expense and available tax credits are passed through to the Company's member. Accordingly, there is no provision for federal income tax and state income tax expense reflected in the combined and consolidated financial statements.

Concentration of Credit Risk—Financial instruments that subject us to credit risk consist of cash and cash equivalents. Our policy is to limit the amount of credit exposure to any one financial institution, and place investments with financial institutions evaluated as being creditworthy, or in short-term money market funds which are exposed to minimal interest rate and credit risk. We have bank deposits which may, at times, exceed federally-insured limits.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Recently Issued Accounting Pronouncements— *Accounting Standards Update 2020-04, Reference Rate Reform ("Update 2020-04")*

In March 2020, the Financial Accounting Standard Board (FASB) issued Update 2020-04 to provide optional guidance for a limited period of time to ease the potential burden in accounting for reference rate reform on financial reporting. Entities may elect to apply Update 2020-04 as of any period that includes, or is subsequent to, March 12, 2020 through December 31, 2022. The Company is evaluating the impact of the adoption of Update 2020-04 to the combined and consolidated financial statements.

Accounting Standards Update 2016-02, Leases ("Update 2016-02")

In February 2016, the FASB issued Update 2016-02 which requires the recognition of lease assets and lease liabilities on the balance sheet and the disclosure of key information about leasing arrangements. The standard, as amended, is effective for financial statements issued for annual periods beginning after December 15, 2021. The Company is evaluating the impact of the adoption of Update 2016-02, as amended, to the combined and consolidated financial statements.

2. CONTRIBUTION

On April 20, 2021, pursuant to a Membership Interest Purchase Agreement dated April 6, 2021, the Company purchased the minority non-voting interests in WILPAC, which owns 100% of the ownership interests in Lago for $3.25 million. The remainder of the interests in WILPAC were owned by PGPI through its various direct and indirect wholly owned subsidiaries which were contributed to P2E Holdings and WILPAC merged with and into P2E Holdings. Following the consummation of this transaction, P2E Holdings contributed its equity interests in Lago to P2E (via an intermediary holding company) and combined with the equity interests purchased by the Company, resulted in Lago becoming a wholly owned subsidiary of the Company on April 20, 2021. The contribution of Lago has been treated as a combination of entities under common control and accounted for in a manner similar to a pooling of interests. Therefore, the contribution has been recorded at the historical cost basis of the assets and liabilities transferred. Additionally, the combined and consolidated financial statements were retrospectively adjusted in 2021 to include the operations of this business for periods prior to the contribution.

The following table summarizes the assets contributed and liabilities assumed as of April 20, 2021:

(in thousands)		As Recorded
Current assets	$	30,956
Property and equipment		222,841
Intangible assets, net		66,450
Other assets, net		1,823
Total assets contributed		322,070
Current liabilities		52,995
Long-term debt		321,175
Total liabilities assumed		374,170
Net liabilities assumed	$	(52,100)

3. PURCHASE

Status of Purchase Price Allocation

As discussed in Note 1, on October 23, 2020, the Company completed the purchase of the remaining equity interest in SCE not previously owned by PGPI or its affiliates. The Company is following the acquisition method of accounting per FASB Accounting Standards Codification Topic 805 *Business Combinations* ("ASC 805"). For purposes of these combined and consolidated financial statements, the Company allocated the purchase price to the assets acquired and the liabilities assumed based on final estimates of fair value as determined by management with the assistance from third-party specialists. The excess of the purchase price over those fair value of the assets acquired and liabilities assumed was recorded as goodwill. The Company recognized the assets acquired and liabilities assumed in the acquisition based on fair values as of the date of the acquisition. The determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) required significant judgment. Management completed its valuation analysis and calculations in sufficient detail necessary to finalize the determination of the fair value of the assets acquired and liabilities assumed, along with the related allocations of goodwill and intangible assets on October 1, 2021. During the measurement period, opening balance sheet adjustments were made to finalize the preliminary fair value estimates, resulting in a $0.4 million decrease to accrued expenses, a $0.2 million decrease in accounts receivable, and a $0.2 million decrease in goodwill. The measurement period adjustments were immaterial to our combined and consolidated financial statements.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net at December 31, 2021 consists of the following:

(in thousands)	December 31, 2021
Land and improvements	$ 63,859
Building and improvements	408,270
Furniture, fixtures and equipment	117,480
Construction in progress	11,371
Total property and equipment	600,980
Less accumulated depreciation	(88,832)
Property and equipment, net	$ 512,148

Construction in progress primarily relates to costs capitalized in conjunction with the development of CDG facilities or major improvements that have not yet been placed into service, and accordingly, such costs are not currently being depreciated.

Depreciation expense for the year ended December 31, 2021 was $42.7 million.

5. INTANGIBLE ASSETS, NET AND GOODWILL, NET

Intangible assets, net consist of the following:

	December 31, 2021				
(in thousands)	Weighted Average Life Remaining (Years)	Gross Carrying Value	Cumulative Amortization	Cumulative Impairment Losses	Intangible Assets, Net
Amortizing intangible assets:					
Player relationships	2.7	$ 4,850	$ (1,465)	$ —	$ 3,385
Strategic Gaming Agreement	None	15,400	(3,670)	(11,730)	—
Indefinite-lived intangible assets:					
Lago Tradename	Indefinite	21,100	—	(5,100)	16,000
Gaming licenses	Indefinite	170,200	—	(18,700)	151,500
Balance, December 31, 2021		$ 211,550	$ (5,135)	$ (35,530)	$ 170,885

Amortizing Intangible Assets

The Strategic Gaming Agreement intangible asset represents the value of the Strategic Gaming Agreement and the payments received by Lago for operating the existing physical sportsbook within the casino as well as the potential to operate an online sportsbook pending the approval of online sports gaming in the State of New York. The value of the Strategic Gaming Agreement intangible asset was determined using the multi-period excess earnings method, which is a specific discounted cash flow model. The value is determined at an amount equal to the present value of the incremental after-tax cash flows attributable to the agreement, discounted to present value at a risk-adjusted rate of return. With respect to the application of this methodology, we used the following significant projections and assumptions: contractual revenues based on the agreement; operating margins; contributory asset charges; discount rate; and the present value of tax benefit.

Player relationships represent the value of repeat business associated with our player loyalty programs. The value is determined using the with-and-without method, which is a specific discounted cash flow model and the replacement cost method, which estimates the cost to rebuild the player relationships. The value is determined at an amount equal to the present value of the incremental after-cash flows attributable to the asset, discounted to present value at a risk-adjusted rate of return. With respect to the application of this methodology, we used the following significant projections and assumptions: revenues of our VIP players, discount rate; present value of tax benefits; and professional fees and expenses related to developing new player relationships.

Indefinite-Lived Intangible Assets

The Lago tradename is based on the value of our brand and reputation, which reflect the level of service and quality we provide and from which we generate repeat business. The tradename is valued using the relief from royalty method, which presumes that without ownership of such tradename, we would have to make a stream of payments to a brand or franchise owner in return for the right to use their name. By virtue of this asset, we avoid any such payments and record the related intangible value of our ownership of the tradename. We used the following significant projections and assumptions to determine the value under the relief from royalty method: revenues from operations; royalty rate; discount rate; and the present value of tax benefit.

The gaming licenses represent the value of the licenses to conduct gaming in the State of Iowa, the State of Louisiana, and the State of New York, which are subject to highly extensive regulatory oversight and a limitation on the number of licenses available for issuance therein. The gaming license recorded at SCE and Lago were valued using the multi-period excess earnings method, which is a specific discounted cash flow model. The value is determined at an amount equal to the present value of the incremental after-tax cash flows attributable to future gaming revenue, discounted to the present value at a risk-adjusted rate of return. With respect to the application of this methodology, we used the following significant projections and assumptions: gaming revenues; operating expenses attributable to gaming; contributory assets charges; discount rate; and the present value of tax benefit. The gaming license recorded at Legends was valued using the market approach.

The Company has determined that the Lago tradename and the gaming licenses are intangible assets with an indefinite life as the Company has determined that there are no known legal, regulatory, contractual, economic or other factors that would limit its useful life and the Company intends to use the tradename and renew and operate the licenses indefinitely. In addition, other key factors in the Company's assessment that the gaming licenses have an indefinite life include: (i) the Company's renewal experience confirms that renewals would not be withheld except under extraordinary circumstances; (ii) the renewal process confirms the Company's belief that the renewal process could be completed without substantial cost and without material modification of the gaming licenses; and (iii) the continued limitation of gaming licenses in the State of Iowa, the State of Louisiana, and the State of New York limits competition in the jurisdictions where the gaming licenses are maintained.

The following table sets forth the changes in these intangible assets:

ACTIVITY FOR THE YEAR ENDED DECEMBER 31, 2021

(in thousands)	Player Relationships	Strategic Gaming Agreement	Tradename	Gaming Licenses	Intangible Assets, Net
Balance, December 31, 2020	$ 4,597	$ 13,025	$ 16,000	$ 151,500	$ 185,122
Additions	—	—	—	—	—
Impairments	—	(11,730)	—	—	(11,730)
Amortization	(1,212)	(1,295)	—	—	(2,507)
Balance, December 31, 2021	$ 3,385	$ —	$ 16,000	$ 151,500	$ 170,885

Goodwill

Due to the application of purchase accounting for SCE as described in Note 3, we recorded an adjustment to goodwill of $0.2 million during the measurement period during the year ended December 31, 2021.

The following table sets forth the changes in goodwill:

ACTIVITY FOR THE YEAR ENDED DECEMBER 31, 2021

(in thousands)	Gross Carrying Value	Cumulative Impairment Losses	Goodwill, Net
Balance, December 31, 2020	$ 62,587	$ (39,300)	$ 23,287
Adjustment	(249)	—	(249)
Balance, December 31, 2021	$ 62,338	$ (39,300)	$ 23,038

Future Amortization

The player relationship intangible asset is being amortized on a straight line basis over an approximate four year useful life.

The future amortization of intangible assets is as follows:

(in thousands)		Player Relationships
For the year ending December 31:		
2022	$	1,213
2023		1,212
2024		960
Total future amortization	$	3,385

Impairment Considerations

On July 13, 2021, the Company received notice that the third party exercised its right to terminate the Strategic Gaming Agreement effective October 12, 2021. The Company determined this event was an indicator of impairment and, as such, recognized an impairment charge of $11.7 million related to this agreement during the three months ended September 30, 2021.

Indefinite lived intangible assets as of December 31, 2021 include the tradename and the gaming licenses. Indefinite lived intangible assets and goodwill are not subject to amortization, but they are subject to an annual impairment test in the fourth quarter of each year and between annual test dates in certain circumstances. No impairments were recorded as a result of the annual impairment tests performed as of December 31, 2021.

6. DEBT

LONG-TERM DEBT

Long-term debt, net of current maturities, origination fees and costs, original issuance premium or discounts, and fair value consists of the following:

(in thousands)	December 31, 2021				
	Interest Rate at December 31, 2021	Outstanding Principal	Unamortized Premium	Unamortized Origination Fees and Costs	Long-Term Debt, Net
Senior notes	8.5%	$ 850,000	$ 19,089	$ (32,815)	$ 836,274
Less current maturities		—	—	—	—
Long-term debt, net		$ 850,000	$ 19,089	$ (32,815)	$ 836,274

Senior Notes

On October 23, 2020, the Company issued $475 million in aggregate principal of Senior Notes issued at par. Interest on the Senior Notes is payable on May 15 and November 15 of each year, commencing on May 15, 2021. The net proceeds from the Senior Notes were used, among other things, to acquire the 50% equity interest in SCE owned by Sioux City Entertainment, Inc., repay certain outstanding indebtedness of SCE, repay all outstanding indebtedness under the P2E Loan (as defined below), and pay fees and expenses related to the offering. The Senior Notes are guaranteed by the Company's restricted subsidiaries as defined in the indenture. On February 8, 2021, the Issuers issued an additional $75.0 million in aggregate principal of Senior Notes under the indenture at an issue price of 106.75% plus accrued and unpaid interest from October 23, 2020 and the net proceeds of such were used for general corporate purposes.

On April 20, 2021, the Issuers issued an additional $300.0 million in aggregate principal of Senior Notes under the indenture at an issue price of 105.50% plus accrued and unpaid interest from October 23, 2020. The net proceeds from the Senior Notes were used, among other things, to purchase certain minority interests in WILPAC, repay the outstanding indebtedness of Lago, and pay fees and expenses related to the offering.

The Senior Notes contain certain restrictive covenants, that subject to exceptions and qualifications, among other things, limit the Issuers and its restricted subsidiaries ability to (i) incur more indebtedness or guarantee the indebtedness of others; (ii) create liens; (iii) transfer, sell or dispose assets; (iv) pay dividends or make distributions; (v) make investments; and (vi) enter into transactions with affiliates.

At any time prior to November 15, 2023, the Issuers may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, up to, but excluding, the applicable redemption date, plus a make whole premium. After November 15, 2023, the Issuers may redeem all or a portion of the Senior Notes at redemption prices (expressed as percentages of the principal amount) ranging from 104.25% in 2023 to 100% in 2025 and thereafter, plus accrued and unpaid interest, if any. In addition, prior to November 15, 2023, the Issuers may redeem up to 40% of the principal amount of the Senior Notes, calculated after giving effect to the issuance of any Additional Notes (as defined in the indenture), with the proceeds of certain equity offerings at a redemption price of 108.50% of the aggregate principal amount of such notes, plus accrued and unpaid interest, if any, up to, but excluding, the applicable redemption date; provided that at least 50% of the aggregate principal amount of the notes remains outstanding after such redemption.

In conjunction with the October 2020 issuance, the February 2021 issuance, and the April 2021 issuance of the Senior Notes, we incurred approximately $36.2 million in origination fees and costs that have been deferred and are being amortized over the term of the Senior Notes using the effective interest method.

P2E Credit Facility

On October 23, 2020, the Company entered into a credit agreement with Credit Suisse AG, Cayman Islands Branch as administrative agent and collateral agent ("P2E Credit Facility"). The P2E Credit Facility permits the Company to request advances and letters of credit up to a maximum amount of $75.0 million. Obligations under the P2E Credit Facility are secured by a first lien security interest in the Company's and the guarantors' existing and future assets (other than certain excluded assets). The P2E Credit Facility is guaranteed by the Company's existing and future restricted subsidiaries as defined in the P2E Credit Facility.

The interest rate on the outstanding balance of the P2E Credit Facility is based upon, at the Company's option, either: (i) the LIBOR rate plus an applicable margin of 4.00% or (ii) the base rate plus an applicable margin of 3.00%. The "base rate" under the P2E Credit Facility is the highest of (x) Credit Suisse's publicly-announced prime rate, (y) the federal funds rate plus 0.50%, or (z) the LIBOR rate for a one month period plus 1.00%; provided that the base rate shall not be less than 1.00%.

The P2E Credit Facility contains a financial covenant that requires, as of the end of any fiscal quarter in which the Company has outstanding borrowings and letters of credit (excluding up to $2.5 million of issued and outstanding undrawn letters of credit) equal to or more than $22.5 million, that the Company's Consolidated Total Leverage Ratio (as defined in the P2E Credit Facility) shall not exceed the following limits:

	Consolidated Total Leverage Ratio
Fiscal quarter ending December 31, 2021 through the fiscal quarter ending March 31, 2022	7.25 to 1.00
Fiscal quarter ending June 30, 2022 through the fiscal quarter ending December 31, 2022	7.00 to 1.00
Fiscal quarter ending March, 31, 2023 and each fiscal quarter thereafter	6.50 to 1.00

In addition, the P2E Credit Facility includes negative covenants, subject to certain exceptions, restricting or limiting our ability and the ability of our restricted subsidiaries to, among other things: (i) make non-ordinary course dispositions of assets; (ii) participate in certain mergers and acquisitions; (iii) make dividends and stock repurchases and optional redemptions (and optional prepayments) of certain subordinated, junior lien or unsecured debt; (iv) incur indebtedness; (v) make certain loans and investments; (vi) create liens; (vii) transact with affiliates; and (viii) change our business and the business of our restricted subsidiaries.

As of December 31, 2021, the Company had no outstanding borrowings and $2.9 million of letters of credit were outstanding under the P2E Credit Facility leaving $72.1 million of available borrowings.

In conjunction with the issuance of the P2E Credit Facility, we incurred approximately $2.3 million in origination fees and costs that have been deferred and are being amortized over the term of the P2E Credit Facility using the effective interest method.

Paycheck Protection Program Loan

On May 6, 2020, SCE received a paycheck protection program loan for $3.0 million at 1.00% interest from the U.S. Small Business Administration subject to eligible forgiveness with monthly payments deferred until October 1, 2021, at which point principal and interest payments were to be made until maturity in May 2022.

On June 30, 2021, the Company was notified that its paycheck protection program loan has been forgiven by the U.S. Small Business Administration and a $1.5 million gain upon extinguishment is included in the loss on extinguishment of debt, net on the combined and consolidated statement of operations for the year ended December 31, 2021.

Lago Indebtedness

Term Loans

Lago's First Lien Building Term Loan Agreement dated March 7, 2016 (as amended in August 2018, August 2019 and May 2020 the "First Lien Term Loan") provided for a senior secured term loan and Lago's Second Lien Building Term Loan Agreement dated March 7, 2016 (as amended in August 2018, August 2019 and May 2020, the "Second Lien Term Loan" and, together with the First Lien Term Loan, the "Term Loans") provided for a term loan, both of which were fully funded on March 7, 2016. Proceeds from the Term Loans were used to fund the design, development, and opening of the del Lago project.

Revolving Credit Facility

On March 7, 2016, Lago entered into a First Lien Revolving Credit Agreement due March 7, 2021 (as amended in August 2018, August 2019 and May 2020, the "Revolving Credit Facility"). The Revolving Credit Facility permitted Lago to (i) incur term loans of up to $20.0 million under the RCF Term Loan (which were fully funded on May 1, 2020) and (ii) request revolving advances and letters of credit up to a maximum amount of $10.0 million.

Extinguishment of Lago Debt

As previously described, in April 2021, Lago became a wholly owned subsidiary of the Company. As part of the transaction, P2E along with Peninsula Pacific Entertainment Finance, Inc., as co-issuers, issued $300.0 million in aggregate principal amount of 8.50% Senior Notes due in 2027. The net proceeds of such issuance, along with existing P2E cash on hand were used to repay all outstanding indebtedness of $354.0 million and terminate Lago's existing debt agreements. As a result, approximately $4.0 million of unamortized debt financing fees and original issue and fair value discount was written off and, along with approximately $0.1 million in fees, are included in the loss on extinguishment of debt, net on the combined and consolidated statement of operations.

Maturity Schedule

The scheduled maturities of long-term debt outstanding as of December 31, 2021, are as follows:

(in thousands)

For the year ending December 31,		
2022	$	—
2023		—
2024		—
2025		—
2026		—
Thereafter		850,000
Total	$	850,000

Covenants

As of December 31, 2021, we believe that the Company and its subsidiaries were in compliance with the financial covenants of their respective debt instruments.

7. COMMITMENTS AND CONTINGENCIES

Commitments

CDG entered into an agreement (along with its amendments) with a third party to provide CDG with HHR machines to be used at Colonial Downs and CDG's satellite wagering facilities. The agreement calls for an upfront purchase price per unit plus a system and game fee totaling 12.0% of HHR machine revenue for the first 3,000 HHR machines. Upon certain triggering events as defined in the agreement, the system and game fee decreases to between 7.0% - 9.0% of HHR machine revenue for additional terminals. The initial term of the agreement is ten years from the opening of Colonial Downs (subject to unlimited three-year renewal provisions). During the year ended December 31, 2021, CDG expensed $32.6 million in system and game fees related to this agreement and is recorded in HHR expense on the combined and consolidated statement of operations.

CDG entered into a Revenue Sharing Agreement ("RSA") with the Virginia Equine Alliance and related horseracing entities (together, the "VEA"). Under the RSA, CDG agreed to pay the VEA, in addition to any statutory purses or fees, and subject to a one year grace period at Colonial Downs and each satellite wagering facility, 6.0% of net HHR revenue up to $60.0 million of revenue and 7.0% of net HHR revenue thereafter. The RSA is for a period of 10 years from the opening of Colonial Downs. During the year ended December 31, 2021, CDG expensed $17.1 million, related to the RSA and is recorded in HHR expense on the combined and consolidated statement of operations.

In addition to the above, under the RSA, CDG agreed to pay the VEA $2.5 million per year for a period of five years beginning in June 2019.

In 2013, SCE entered into a Development Agreement and Minimum Assessment Agreement with the City of Sioux City, Iowa (the "City"). Under the Minimum Assessment Agreement, SCE and the City agreed to a minimum taxable value related to the new casino of $51 million. SCE agreed to pay property taxes to the City based on the actual taxable value of the casino, but not less than the minimum taxable value. Scheduled payments of principal and interest on the City bonds will be funded through SCE's payment obligations under the Minimum Assessment Agreement. SCE is also obligated to pay any shortfall should property taxes be insufficient to fund the principal and interest payments on the City bonds. Interest costs under the Minimum Assessment Agreement obligation are expensed as incurred. As of December 31, 2021, the remaining obligation under the Minimum Assessment Agreement was $1.5 million, which was recorded in accrued liabilities on the combined and consolidated balance sheet and $10.5 million, net of a $1.5 million discount, which was recorded as a long-term obligation on the combined and consolidated balance sheet. The discount will be amortized to interest expense over the life of the Minimum Assessment Agreement using the effective interest method. Total minimum payments by SCE under the Minimum Assessment Agreement are approximately $1.7 million, $1.6 million, and $1.5 million for years ending December 31, 2022, 2023 - 2025, and 2026, respectively with the remainder of $8.8 million in payments due through 2033.

The Development Agreement contains revenue guarantees whereby, for the first 10 years of operations, SCE will pay to the City any shortfall amount derived from subtracting from $2.1 million, 1.75% of SCE's adjusted gross receipts as defined in Iowa Code Section 99F.1(1), an additional portion of 0.5% of SCE's adjusted gross receipts, the amount of state sales tax generated from sales at the casino not to exceed $100,000, and hotel/motel taxes not to exceed $75,000. The foregoing guarantee will be continued for an additional 10-year period under the same terms, except that it can be terminated upon the opening of a new casino with at least 500 gaming positions within a 50-mile radius, the Iowa Smoke Free Air Act no longer being in effect, or the Iowa wagering tax rate being increased by 20% or more.

In 2013, the SCE entered into a license agreement to operate the casino under the "Hard Rock Casino" and "Hard Rock Hotel" trademarks. The initial term of the license agreement is 20 years following the date SCE opened for business and each party has the right to extend the initial term for two additional terms of five years each. In connection with the license agreement, SCE is obligated to pay license fees based on gross revenues, as defined in the agreement, on a graduated scale. During any fiscal year, the Company shall pay no less than the minimum license fee of $1.5 million per year. SCE paid $2.4 million in license fees for the year ended December 31, 2021, which is included in general and administrative expenses on the combined and consolidated statement of operations.

In 2012, SCE entered into an Operating Agreement with Missouri River Historical Development, Inc. ("MRHD"), an Iowa nonprofit corporation and a Qualified Sponsoring Organization under Iowa Code Section 99F.1(13). The initial term of the License Agreement is 20 years following the date SCE opened for business and has the right to extend the initial term for two additional terms of five years each. MRHD, as a Qualified Sponsoring Organization, co-holds the gaming license with SCE to conduct certain gambling activities. SCE is required to pay MRHD 4.25% of the casino's adjusted gross receipts and 0.75% of sports wagering net receipts during the term of the operating agreement. In addition, SCE is obligated to make monthly payments to the City of Sioux City, Iowa of 1.75% of the casino's adjusted gross receipts and a flat fee of $6,250 to Woodbury County, Iowa. SCE expensed $5.9 million for the year ended December 31, 2021, which is included in gaming expenses on the combined and consolidated statement of operations.

As part of the SCE acquisition, a liability of $6.5 million was recorded related to penalties and interest related to certain compliance reporting matters that relate to the pre-acquisition period and an indemnification receivable of $3.2 million was recorded from the seller in accordance with the provisions of the MIPA. In 2021, the liability and receivable were subsequently decreased by $0.4 million and $0.2 million, respectively, during the purchase accounting measurement period (see Note 3) and in January 2022, the Company received a notice that a portion of the penalty was forgiven. Based on the notice, the Company reduced the liability by $2.0 million, the receivable by $1.0 million, and recorded a loss recovery of $1.0 million. The liability and receivable were recorded in other current assets and accrued liabilities, respectively as of December 31, 2021. The loss recovery is recorded in general and administrative expense on the combined and consolidated statement of operations for the year ended December 31, 2021.

In October 2015, Lago entered into a Community Mitigation Plan ("CMP") with the Town of Tyre, New York. The CMP outlines various obligations of Lago to help mitigate the impact of the del Lago development on the local community. Such obligations include, but are not limited to, workforce development, problem gambling treatment funding, agricultural and wildlife conservation, infrastructure improvements, and emergency services funding and improvements. Payments under the CMP are approximately $0.6 million per year.

In December 2015, Lago entered into an Agency Tax Agreement ("Tax Agreement") and a Leaseback Agreement ("Leaseback Agreement") with the IDA. The Tax Agreement calls for fixed payments over a 20 year period beginning in 2017 in lieu of property taxes and the Leaseback Agreement calls for fixed payments of $100,000 per year over a 10 year period beginning in 2015.

In December 2015, Lago entered into the 318 Corridor Contribution Letter Agreement ("318 Agreement") with Seneca County. The 318 Agreement calls for annual payments for a period of 22 years beginning in 2017 to help Seneca County with infrastructure and community development.

The scheduled payments under the Tax Agreement, Lease Agreement, and 318 Agreement are as follows:

(in thousands)

For the year ending December 31:		
2022	$	1,760
2023		1,860
2024		1,960
2025		1,960
2026		2,060
Thereafter		29,626
Total scheduled payments	$	39,226

On March 2, 2021, AZD entered into the sale and purchase option agreement as discussed in Note 1. If such option is exercised, AZD will grant a phantom equity interest award to the seller that represents the right to receive cash or (in circumstances as defined in the agreement) securities based on a liquidity event as defined in the agreement as part of the consideration paid under the purchase agreement.

The Company leases real property for its Hampton, Virginia, Dumfries, Virginia and Collinsville, Virginia operations as well as office space in Richmond, Virginia.

In addition, the Company leases property, equipment and gaming machines that are leased on a month-to-month basis or are cancellable short-term leases. Rent expense for the above operating leases was $7.2 million for the year ended December 31, 2021.

Future non-cancelable lease payments under these and other leases are as follows:

(in thousands)

For the year ending December 31,		
2022	$	2,233
2023		1,572
2024		1,610
2025		1,662
2026		894
Thereafter		5,278
Total	$	13,249

Contingencies

Based upon regulations adopted on April 10, 2019, the New York State Gaming Commission ("Commission") is authorized to assess, on an annual basis, certain costs necessary to maintain regulatory control over commercial gaming facilities, which in turn will be paid by the operators of the commercial gaming facilities to the Commission on a pro rata basis by number of gaming positions. This authorization includes notification of anticipated costs for the coming state fiscal year (April 1 to March 31), remittance of funds prior to the start of said fiscal year, and reconciliation of overages or deficiencies at the conclusion of said fiscal year based on actual costs incurred.

Prior to April 2019, Lago had been accruing an estimate for potential regulatory costs. However, as Lago did not receive the required assessment prior to the April 1, 2019 deadline set forth in the regulation, it was determined that Lago did not have a liability for any regulatory costs and therefore, the amount accrued prior to April 2019, the date the Commission passed the above noted regulation, was reversed.

In November 2019, Lago received an invoice for $3.3 million covering the periods from December 1, 2016 through March 31, 2019. In November 2020, Lago received an invoice for $1.4 million covering the periods from April 1, 2019 through March 31, 2020. In November 2021, Lago received an invoice for $0.8 million covering the periods from April 1, 2020 through March 31, 2021. The Company believes that the invoices seek the recovery of costs beyond the Commission's legal authority to collect because the Commission is attempting to collect for costs including those incurred (i) prior to the period for which the Commission may legally recover costs, and (ii) outside the type of those that the Commission is legally authorized to collect.

While the Company believes it is reasonably possible that it may be required to pay some portion of these regulatory costs, such amounts cannot be reasonably estimated; therefore, an expense and related liability has not been recorded in the accompanying combined and consolidated financial statements.

We are parties to various legal proceedings arising in the ordinary course of business. We believe that all pending claims, if adversely decided, would not have a material adverse effect on our business, financial position or results of operations.

8. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

(in thousands)	December 31, 2021
Payroll and related expenses	$ 5,615
Historical horse racing and gaming	14,804
Live and simulcast racing	10,979
Player loyalty point programs	3,165
Taxes	10,419
Other	12,041
Total other accrued expenses	$ 57,023

9. FAIR VALUE MEASUREMENTS

We have adopted the authoritative accounting guidance for fair value measurements, which does not determine or affect the circumstances under which fair value measurements are used, but defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

These inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

As required by the guidance for fair value measurements, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Thus, assets and liabilities categorized as Level 3 may be measured at fair value using inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

Balances Measured at Fair Value

The following tables show the fair values of certain of our financial instruments:

	December 31, 2021			
(in thousands)	Balance	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 129,014	$ 129,014	$ —	$ —
Restricted cash	2,879	2,879	—	—

The fair value of our cash and cash equivalents and restricted cash, classified in the fair value hierarchy as Level 1, are based on statements received from our banks at December 31, 2021.

As discussed in Note 1, significant assumptions utilized in the fair value of our profits interests are not observable in the market and are thus classified in the fair value hierarchy as Level 3 measurements.

As discussed in Note 5, we recorded impairments on our Strategic Gaming Agreement as a result of the termination of the agreement. Significant assumptions utilized were measured based on expected cash flows, which are not observable in the market and are thus classified in the fair value hierarchy as Level 3 measurements.

Balances Disclosed at Fair Value

The following tables provide the fair value measurement information about certain of our financial instruments:

	December 31, 2021			
(in thousands)	Outstanding Face Amount	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Liabilities				
Minimum assessment agreement	$ 13,493	$ 12,071	$ 12,991	Level 3
Senior notes	850,000	836,274	924,214	Level 2

The estimated fair value of our Senior Notes are based on quoted market prices as of December 31, 2021. We have estimated the fair value of the minimum assessment agreement using a discounted cash flow approach, after giving consideration to the changes in market rates of interest, creditworthiness of the parties, and credit spreads. The weighted average discount rate used in calculating the fair value of the minimum assessment agreement was 5.4% as of December 31, 2021.

There were no transfers between Level 1, Level 2 and Level 3 measurements during the year ended December 31, 2021.

10. RELATED PARTY TRANSACTIONS

M. Brent Stevens, Chairman of the Board of Managers, through his position as Manager of PGP Investors, LLC, controls the Company. As such, Mr. Stevens had the ability to significantly influence the Company's affairs, including the election of members of the Board of Managers and, except as otherwise provided by law, approving or disapproving other matters, including a merger, consolidation, or sale of assets.

There were no other related party transactions between Lago and Mr. Stevens other than reimbursement of expenses in his capacity as a board member prior to the contribution of Lago to the Company on April 20, 2021.

On January 4, 2021 and on April 1, 2021, the Company made equity distributions of $3.1 million and $2.9 million, respectively, to P2E Holdings (via an intermediary holding company) which was subsequently loaned by P2E Holdings to WILPAC and then contributed by WILPAC to Lago to make its cash interest payments due under the Second Lien Term Loan.

On April 20, 2021, pursuant to a Membership Interest Purchase Agreement dated April 6, 2021, the Company purchased the minority non-voting interests in WILPAC, which owns 100% of the ownership interests in Lago for $3.25 million. The remainder of the interests in WILPAC were owned by PGPI through its various direct and indirect wholly owned subsidiaries which were contributed to P2E Holdings and WILPAC merged with and into P2E Holdings. Following the consummation of this transaction, P2E Holdings contributed its equity interests in Lago to P2E (via an intermediary holding company), and combined with the equity interests purchased by the Company, resulted in Lago becoming a wholly owned subsidiary of the Company on April 20, 2021.

On October 23, 2020, the Company entered into a management services agreement with JNB Gaming, LLC ("JNB") ("P2E MSA"). Three of the members of the Board of Managers of P2E Holdings, through their combined ownership percentages of JNB, have the ability to significantly influence JNB's affairs. The P2E MSA has a term of seven years. As consideration for the services provided under the P2E MSA, the Company pays JNB a management fee equal to 1% of the gross revenue of each of CDG and SCE plus 5% of EBITDAM (as defined in the agreement) of each of P2E, CDG and SCE and to pay a fixed employee expense payment of $2.5 million per year. Concurrent with entering into the P2E MSA, the CDG MSA (defined below) was terminated. Beginning, April 20, 2021, the management services for Lago were governed by the P2E MSA which was amended in April 2021 to include Lago as well as certain other subsidiaries and facilities that may be developed and/or acquired in the future under similar terms as described above and as defined in the agreement. Concurrent with the acquisition and contribution of Lago to the Company, the Lago MSA (defined below) was terminated. Total management fees under the P2E MSA were $16.9 million for the year ended December 31, 2021.

Lago was a party to a management services agreement with JNB dated May 29, 2014 ("Lago MSA"). Under the Lago MSA, JNB was paid a management to manage Lago's operations up through April 19, 2021 (the termination date of the Lago MSA). Total management fees under the Lago MSA were $3.4 million for the year ended December 31, 2021, which includes a $3.0 million termination fee.

Legends is a party to a management services agreement with JNB dated August 1, 2016 ("Legends MSA"). Under the Legends MSA, JNB is paid a $0.4 million annual management fee to manage Legends' ongoing operations. Total management fees under the Legends MSA were $0.4 million for the year ended December 31, 2021.

The Company is a party to an agreement with a marketing agency to provide branding and design services. The marketing agency is owned by two principals of JNB. The Company paid approximately $1.2 million for the year ended December 31, 2021. The agreement was negotiated at an arms-length and was subject to the Company's regular bidding procedures.

Additionally, in connection with the issuance of the additional Senior Notes related to the acquisition and contribution of Lago to the Company on April 20, 2021, the Company paid transaction fees to affiliates of the Company, which include $3.6 million to PGPI, $3.6 million to PGP Advisors, LLC (an entity affiliated with M. Brent Stevens), and $0.5 million to other members of JNB.

On July 30, 2021, the Company contributed $6.5 million (via RVA) to the Urban One Venture which was used to partially fund a $26 million upfront payment to be held in escrow pending the results of the citywide referendum permitting the development of the casino. On November 2, 2021, the referendum did not pass. In January 2022, the Richmond City Council voted to re-select the Urban One Venture as the preferred casino operator which is subject to recertification by the Virginia Lottery Board ("VLB"). The VLB is currently reviewing pre-certification materials for the owner and its subsidiaries. Upon approval of pre-certification by the VLB, the City of Richmond may petition the courts to order the referendum question for the Urban One Venture added to the November 2022 ballot. If the referendum is not placed on the November 2022 ballot or the referendum does not pass, the $6.5 million in escrow will be returned to the Company.

On August 6, 2021, the Company made a $50.0 million distribution to P2E Holdings for P2E Holdings to settle a residual obligation related to the acquisition of Lago.

11. SUBSEQUENT EVENTS

On February 18, 2022, Peninsula Pacific Entertainment Intermediate Holdings, LLC ("P2EIH"), the Company's direct parent, entered into a definitive purchase agreement with Churchill Downs Incorporated ("CDI") to acquire all of the Company's assets in Virginia and New York and the operations of its Sioux City casino property for total consideration of approximately $2.5 billion (subject to customary purchase price adjustments at closing) (the "P2E Purchase Agreement").

As part of the P2E Purchase Agreement, the Company is expected to reach a definitive agreement to sell the real property associated with HRSC ("HRSC Property") to a third party. CDI will acquire the operating company and lease the HRSC Property from that third party. In the event the Company is unsuccessful in reaching a definitive agreement with a third party to purchase the HRSC Property by a certain date, the HRSC Property will be included in the purchase and the total consideration will increase to $2.75 billion.

The P2E Purchase Agreement is dependent on usual and customary closing conditions, including the Company obtaining approvals from the Virginia Racing Commission, the New York State Gaming Commission, and the Iowa Racing and Gaming Commission. The transaction is expected to close by the end of 2022.

Other than as disclosed, no events have occurred after December 31, 2021, but before March 8, 2022, the date the financial statements were issued, that require adjustments to or disclosures in the combined and consolidated financial statements.

The Company also evaluated subsequent events for disclosure purposes only through October 3, 2022, the date the financial statements were reissued.

12. REVISIONS TO PREVIOUSLY ISSUED COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS TO COMPLY WITH SECURITIES AND EXCHANGE COMMISSION ("SEC") REGULATION S-X

These combined and consolidated financial statements were prepared in order to meet the requirements prescribed in SEC Regulation S-X, which specifies the form and content of the combined and consolidated financial statements which are anticipated to be included in CDI SEC filings after the completion of the acquisition. Changes have been made to the previously issued combined and consolidated financial statements as of and for the year ended December 31, 2021 as follows:

The Company originally accounted for goodwill under the Private Company Council ("PCC") alternative, which permitted the Company to amortize its goodwill on a straight-line basis over a 10-year period, however, goodwill was required to be tested for impairment if an event occurred or circumstances changed that indicated that the fair value of the reporting unit was below its carrying amount (a triggering event). Gross goodwill of $62.3 million (of which Lago goodwill was fully impaired during the quarter ended March 31, 2020) was previously being amortized. As a result, of no longer utilizing the PCC alternative, these combined and consolidated financial statements have been updated to reflect the reversal of $2.3 million of amortization expense for the year ended December 31, 2021, and the cumulative impact of the reversal of accumulated amortization to goodwill and accumulated deficit of $0.4 million as of January 1, 2021. Further, the amount of cumulative impairment losses disclosed as of December 31, 2020 were increased by $2.5 million to $39.3 million to reflect the reversal of Lago goodwill amortization prior to its full impairment during the quarter ended March 31, 2020. In addition, annual goodwill impairment testing was performed as required by FASB ASC 350, Goodwill and Intangible Assets.

The Company originally accounted for its profit interests under the alternative for non-public entities which allowed the Company to value its profit interests utilizing intrinsic value. As a result of valuing the profit interests at fair value, these combined and consolidated financial statements have been updated to decrease the amount of expense related to the profit interests by $45.9 million and also to decrease the non-cash member contribution by the same amount to record the cumulative adjustment to fair value.

The Company originally elected the alternative for non-public entities which did not require fair value measurements to be disclosed for financial instruments not recorded at fair value. Such disclosures are now included in Note 9 of the combined and consolidated financial statements.

The Company originally presented Receivables within the Other current assets financial statement line item and has now presented it as a separate line item in the consolidated balance sheet and the associated impacts in the combined and consolidated statement of cash flows. In addition, the policy disclosure in Note 1 – Summary of Significant Accounting Policies, under the sections Receivables and Other current assets reflect such change.

The Company has added a footnote to provide additional detail of the categorization of its Other accrued expenses. See Note 8.

The policy disclosures reflected in Note 1 – Summary of Significant Accounting Policies, under the sections Goodwill, Net, Equity Based Compensation, and Recently Adopted Accounting Pronouncements, Note 5 – Intangible Assets, net and Goodwill, Net, and Note 9 – Fair Value Measurements reflect these revised policies.

Peninsula Pacific Entertainment, LLC

Condensed Consolidated Financial Statements as of September 30, 2022 and for the Nine Months Ended September 30, 2022

PENINSULA PACIFIC ENTERTAINMENT, LLC
TABLE OF CONTENTS

PENINSULA PACIFIC ENTERTAINMENT, LLC
CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

(in thousands)

	September 30, 2022
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 120,300
Restricted cash	1,744
Receivables	9,304
Other current assets	10,337
Other current assets - held for sale	863
Total current assets	142,548
PROPERTY AND EQUIPMENT, NET	602,683
OTHER ASSETS:	
Intangible assets, net	159,976
Goodwill, net	23,038
Other assets	9,583
Other assets - held for sale	15,406
Total other assets	208,003
TOTAL	$ 953,234
LIABILITIES AND MEMBER'S DEFICIT	
CURRENT LIABILITIES:	
Accounts payable	$ 6,506
Capital project payable	10,361
Accrued interest	27,295
Other accrued expenses	64,009
Current liabilities - held for sale	1,817
Total current liabilities	109,988
LONG-TERM LIABILITIES	
Long-term debt, net	837,965
Minimum assessment agreement	9,355
Total long-term liabilities	847,320
COMMITMENTS AND CONTINGENCIES (NOTE 5)	
MEMBER'S DEFICIT:	
Common member's interest	375,726
Accumulated deficit	(379,800)
Total member's deficit	(4,074)
TOTAL	$ 953,234

See notes to condensed consolidated financial statements.

PENINSULA PACIFIC ENTERTAINMENT, LLC
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

(in thousands)

	Nine Months Ended September 30, 2022
REVENUES:	
Historical horse racing	$ 248,049
Gaming	177,405
Live and simulcast racing	7,410
Food and beverage	21,085
Hotel	8,397
Other	19,658
Total revenues	482,004
EXPENSES:	
Historical horse racing	96,447
Gaming	72,580
Live and simulcast racing	9,241
Food and beverage	17,390
Hotel	3,763
Marketing	20,160
General and administrative	123,991
Other	5,394
Management fees	15,885
Depreciation and amortization	29,275
Development expense	4,007
Pre-opening expense	535
Gain on disposal	(164)
Total expenses	398,504
INCOME FROM OPERATIONS	83,500
OTHER INCOME (EXPENSE):	
Interest income	380
Interest expense	(53,911)
Total other expense	(53,531)
NET INCOME	$ 29,969

See notes to condensed consolidated financial statements.

PENINSULA PACIFIC ENTERTAINMENT, LLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBER'S EQUITY (DEFICIT) (Unaudited)

(in thousands)

	COMMON MEMBER'S INTEREST	ACCUMULATED DEFICIT	TOTAL MEMBER'S EQUITY (DEFICIT)
BALANCE, DECEMBER 31, 2021	$ 362,505	$ (409,769)	$ (47,264)
Member contributions	61,266	—	61,266
Member distributions	(48,045)	—	(48,045)
Net income	—	29,969	29,969
BALANCE, SEPTEMBER 30, 2022	$ 375,726	$ (379,800)	$ (4,074)

See notes to condensed consolidated financial statements.

PENINSULA PACIFIC ENTERTAINMENT, LLC
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(in thousands)

	Nine Months Ended September 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 29,969
Adjustments to reconcile net income to net cash flows from operating activities:	
Depreciation and amortization	29,275
Non-cash contribution from member	61,266
Non-cash interest	1,650
Non-cash other	348
Gain on disposal	(164)
Changes in operating assets and liabilities:	
Receivables	7,385
Other assets	(3,500)
Accounts payable	3,626
Accrued expenses	25,057
Net cash flows from operating activities	154,912
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(116,929)
Proceeds from sale of property and equipment	213
Net cash flows from investing activities	(116,716)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Member distributions	(48,045)
Net cash flows from financing activities	(48,045)
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(9,849)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	131,893
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$ 122,044
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the period for interest, net of amounts capitalized	$ 34,198
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:	
Property and equipment acquired, but not paid	$ 10,749

See notes to condensed consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—Peninsula Pacific Entertainment, LLC (the "Company", "P2E", "we", "us" or "our"), a Delaware limited liability company, was formed on February 7, 2018. As of September 30, 2022, the Company was an indirect wholly owned subsidiary of Peninsula Pacific Entertainment Holdings, LLC ("P2E Holdings"). P2E Holdings is 100% owned by PGP Investors, LLC ("PGPI"), subject to profits interests equal to approximately 18% of the profits above certain distribution thresholds. The Company's significant wholly owned subsidiaries included (i) Colonial Downs Group, LLC, (ii) SCE Partners, LLC, (iii) Lago Resort & Casino, LLC, (iv) AZD Holdings, LLC, (v) Richmond VA Development, LLC, (vi) RVA Holdings Group, LLC, (vii) Legends Holding, LLC, (viii) Cedar Rapids Funding, LLC, (ix) PEN 3 Holdings, LLC, (x) New Hampshire Group, LLC and (xi) Peninsula Pacific Entertainment Finance, Inc.

Colonial Downs Group, LLC ("CDG"), a Delaware limited liability company acquired the Colonial Downs Racetrack in New Kent, Virginia ("Colonial Downs") on April 25, 2018. Operations include the following facilities as of September 30, 2022:

Colonial Downs Racetrack and Rosie's Gaming Emporium
Vinton Rosie's Gaming Emporium
Richmond Rosie's Gaming Emporium
Hampton Rosie's Gaming Emporium
Dumfries Rosie's Gaming Emporium
Collinsville Rosie's Game Room

The CDG facilities collectively include 2,606 historical horse racing ("HHR") machines, pari-mutual simulcast wagering and live racing at Colonial Downs. Each facility has a casual dining restaurant and a casino bar.

SCE Partners, LLC ("SCE"), an Iowa limited liability company, owns and operates the Hard Rock Hotel and Casino Sioux City in Sioux City, Iowa ("HRSC"). As of September 30, 2022, HRSC included approximately 639 slot machines, 20 table games, a sports book, a 54-room AAA-rated Four Diamond hotel, indoor and outdoor entertainment venues, and several food, beverage and retail outlets.

Lago Resort & Casino, LLC ("Lago"), a Delaware limited liability company, owns and operates del Lago Resort & Casino in Tyre, New York ("del Lago"). As of September 30, 2022, Lago includes 1,669 slot machines, 66 table games, 14 poker tables, a sportsbook, a 205-room hotel, a 1,600 seat entertainment venue, and several food, beverage and retail outlets.

AZD Holdings, LLC ("AZD"), a Delaware limited liability company, was formed on January 26, 2021, and held an option to acquire all the equity interests in, or all or substantially all of the assets of Arizona Downs, LLC, which owns and operates the Arizona Downs Racetrack in Prescott, Arizona. Under the Sale and Purchase Option Agreement (which can be terminated by AZD at any time), AZD was obligated to provide funding for mutually agreed expenses of the annual race meets to be held at the Arizona Downs Racetrack (not to exceed $3.5 million per meet for the 2021 meet and $2.0 million thereafter) as well as certain other operating and other expenses. In March 2022, the Sale and Purchase Option Agreement was terminated and in June 2022, AZD was dissolved.

Richmond VA Development, LLC ("RVA DEV"), a Delaware limited liability company, was formed on January 15, 2021, and has entered into an agreement to provide development services to the casino development in Richmond, Virginia which is associated with the Urban One Venture (as defined below).

RVA Holdings Group, LLC ("RVA"), a Delaware limited liability company, was formed on March 10, 2020. RVA holds a preferred stock interest in an entity controlled by Urban One, Inc. (the "Urban One Venture") which was formed to pursue a gaming development in the city of Richmond, Virginia. On November 2, 2021, the referendum required for this development opportunity to move forward did not pass. In January 2022, the Richmond City Council voted to re-select the Urban One Venture as the preferred casino operator which was subject to recertification by the Virginia Lottery Board ("VLB"). The VLB has completed their review and approval of the pre-certification materials for the owner and its subsidiaries. Upon receipt of the VLB approval, the City of Richmond petitioned the courts to order the referendum question for the Urban One Venture be added to the November 2022 ballot. The court ordered the referendum which became final and unappealable on April 18, 2022. Subsequently, the Virginia General Assembly enacted legislation that would prevent the VLB from issuing a casino license unless it was pursuant to a successful referendum held in November 2023 and included a provision that may result in the relocation of the fifth casino license to the City of Petersburg, Virginia. Due to the legislative action taken by the General Assembly, the referendum will not be placed on the November 2022 ballot and the $6.5 million in escrow (as described in Note 8) is eligible to be returned to the Company.

Legends Holding, LLC ("Legends"), a Delaware limited liability company, owns (and operated until its closure in March 2020) the Louisiana Riverboat Gaming Partnership d/b/a DiamondJacks Casino & Resort ("DiamondJacks") in Bossier City, Louisiana. Legends also owns NS-LA Properties, LLC ("NS-LA"), a Delaware limited liability company, which together with its subsidiaries, owns real property in Louisiana.

Cedar Rapids Funding, LLC ("CRF"), a Delaware limited liability company, was formed on August 23, 2013. CRF had no significant assets or operations and was formed to pursue a casino development opportunity in Cedar Rapids, Iowa.

Towards the end of December 2019, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally and on March 11, 2020 the World Health Organization declared the outbreak to be a global pandemic. As a result, there have been directives from federal, state and local authorities resulting in the closure of the Company's properties in mid-March 2020, which negatively impacted the Company's business. As of September 30, 2022, the Company's properties are all operating with minimal restrictions. Although the Company is experiencing positive trends as a result of the reopening of its properties, the COVID-19 pandemic is ongoing and future developments, which are uncertain and cannot be predicted at this time, could have a material negative impact on operations.

On September 21, 2021, the Dumfries Town Council approved The Rose Gaming Resort. The property, which will replace Rosie's Dumfries, will feature 50,000 square-feet of gaming space, up to a 305-room hotel, food and beverage offerings, a 1,500 seat theater, and a parking garage. The Company broke ground on the development on January 11, 2022 and expects the first phase to open in 2023 with all construction completed by 2026.

Company Sale to Churchill Downs Incorporated—On February 18, 2022, Peninsula Pacific Entertainment Intermediate Holdings, LLC ("P2EIH"), the Company's direct parent, entered into a definitive purchase agreement with Churchill Downs Incorporated ("CDI") to acquire the Company's operations in Virginia, New York and Iowa for total consideration of approximately $2.75 billion (subject to customary purchase price adjustments at closing) (the "P2E Purchase Agreement").

On November 1, 2022, CDI completed the acquisition of the Company's assets as contemplated in the P2E Purchase Agreement subject to certain working capital and other purchase price adjustments. During the nine months ended September 30, 2022, the Company incurred $8.2 million in expenses related to the P2E Purchase Agreement and such expenses are recorded in General and administrative expenses on the condensed consolidated statement of operations. The P2E Purchase Agreement excludes the acquisition by CDI of AZD Holdings, LLC, Legends Holding, LLC, Cedar Rapids Funding, LLC, PEN 3 Holdings, LLC, and New Hampshire Group, LLC.

Sale of Legends—On May 15, 2020, Legends announced the DiamondJacks facility would not reopen due to business circumstances caused by the unexpected impact of the COVID-19 pandemic. On April 13, 2022, Legends Holding, LLC entered into a definitive purchase agreement to sell 100% of its equity interests in Legends Gaming, LLC and its subsidiaries, including the entity that owns DiamondJacks and the related gaming license, to a third party for consideration of approximately $15.0 million (subject to customary purchase price adjustments at closing) (the "Legends Purchase Agreement"). The Legends Purchase Agreement is dependent on usual and customary closing conditions, including the Company obtaining approvals from the Louisiana Gaming Control Board. The transaction is expected to close subsequent to the completion of the CDI acquisition. As previously described, this subsidiary was not acquired by CDI pursuant to the P2E Purchase Agreement.

As of March 31, 2022, Legends met the criteria to be classified as held for sale. As such the assets and liabilities related to the transaction are included in Other current assets - held for sale, Other assets - held for sale, and Other current liabilities - held for sale on the condensed consolidated balance sheet as of September 30, 2022. The assets and liabilities of significance include the

Legends gaming license of $10.0 million which was reclassified from Intangible assets, net and the land of $4.9 million reclassified from Property and equipment, net, to Other assets - held for sale.

Proposed Acquisitions by the Company—On June 17, 2022, the Company, through its PEN 3 Holdings, LLC subsidiary, executed an Agreement and Plan of Merger to acquire Kansas Crossing Casino, L.C. and Kansas Crossing Real Estate, L.C., the entities that own the business operations and real estate of Kansas Crossing Casino, located in Pittsburgh, Kansas. This transaction is subject to regulatory approval and is expected to close subsequent to the completion of the CDI acquisition. As previously described, this subsidiary was not acquired by CDI pursuant to the P2E Purchase Agreement.

On August 10, 2022, the Company, through its New Hampshire Group, LLC subsidiary, executed definitive transaction documents (the "Transaction Documents") to purchase the membership interests in (and related real estate, food and beverage, and amusement company assets related to the business operations of) the following charitable gaming businesses: Granite State Poker Alliance, LLC, Dover Gaming, LLC, Concord Bingo Too, LLC, Conway Poker Room & Casino, LLC, and Lebanon Poker Room and Casino, LLC, which are located respectively in Manchester, Dover, Keene, Conway, and Lebanon, New Hampshire. This transaction is subject to regulatory approval and is expected to close subsequent to the CDI acquisition. As previously described, this subsidiary was not acquired by CDI pursuant to the P2E Purchase Agreement.

Basis of Presentation— These condensed consolidated financial statements were prepared in order to meet the requirements prescribed in Securities and Exchange Commission ("SEC") Regulation S-X, which specifies the form and content of the condensed consolidated financial statements as of and for the nine months ended September 30, 2022 which will be included in CDI SEC filings as a result of the acquisition as discussed above.

The unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring entries unless otherwise disclosed, necessary to present fairly the financial information of the Company for the interim periods presented and have been prepared in accordance with accounting principles generally accepted in the United States of America. The interim results reflected in the financial statements are not necessarily indicative of results expected for the full year or other periods.

The condensed consolidated financial statements contained herein should be read in conjunction with the audited combined and consolidated financial statements and notes to the combined and consolidated financial statements for the year ended December 31, 2021 issued on March 8, 2022 and reissued on October 3, 2022 to meet the requirements prescribed in SEC Regulation S-X. Accordingly, footnote disclosure that would substantially duplicate the disclosure in the audited combined and consolidated financial statements has been omitted in these unaudited condensed consolidated financial statements.

All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents—Cash and cash equivalents include highly liquid investments with maturities of three months or less at their date of purchase and are on deposit with high credit quality financial institutions. Although these balances may, at times, exceed the federal insured deposit limit, we believe such risk is mitigated by the quality of the institution holding such deposit. The carrying values of these instruments approximate their fair values as such balances are generally available on demand.

Restricted Cash—Restricted cash primarily consists of amounts restricted by regulation for gaming and racing purposes. These restricted cash balances are invested in highly liquid instruments with a maturity of 90 days or less. These restricted cash balances are held by high credit quality financial institutions. The carrying value of these instruments approximates their fair value due to their short maturities.

The following table provides a reconciliation of cash, cash equivalents and restricted cash balances reported within the condensed consolidated balance sheet to the total balance shown in the condensed consolidated statement of cash flows.

(in thousands)	September 30, 2022
Cash and cash equivalents	$ 120,300
Restricted cash	1,744
Total cash, cash equivalents and restricted cash	$ 122,044

Receivables—Receivables consist primarily of casino, hotel, and other receivables. Receivables are non-interest bearing and are initially recorded at cost. Accounts are written off when management deems the account to be uncollectible, based upon historical collection experience, the age of the receivable and other relevant economic factors. An estimated allowance for doubtful accounts is maintained to reduce our receivables to their carrying amount. As a result, the net carrying value approximates fair value.

Other Current Assets—Other current assets consist of the following:

(in thousands)	September 30, 2022
Prepaid expenses	$ 5,928
Other	4,409
Total	$ 10,337

Prepaid expenses include assets paid in advance such as insurance and maintenance contracts which will be amortized to operating expenses over the term of the agreement.

Other assets consist primarily of food and beverage and retail inventory items and are stated at the lower of cost or net realizable value. Cost is determined using the first in, first out inventory method.

Capitalized Interest—Interest costs associated with major construction projects are capitalized as part of the cost of the constructed assets. Capitalization of interest ceases when the project (or discernible portions of the project) is substantially complete. If substantially all of the construction activities of a project are suspended, capitalization of interest will cease until such activities are resumed. Interest capitalized during the nine months ended September 30, 2022 was $3.2 million and is recorded as a component of property and equipment.

Intangible Assets, Net—Intangible assets, net include gaming licenses, player relationships, and the tradename at Lago.

Amortizing Intangible Assets

Player relationships represent the value of repeat business associated with our player loyalty program at SCE. The player relationships intangible asset at SCE is being amortized over its approximate useful life of four years. Amortizing intangible assets shall be tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. See Note 3.

Indefinite-Lived Intangible Assets

The tradename at Lago is based on the value of our brand and reputation, which reflect the level of service and quality we provide and from which we generate repeat business.

The gaming licenses represent the values of the licenses to conduct gaming in the State of Iowa, in the State of Louisiana, and in the State of New York, which are subject to highly extensive regulatory oversight and a limitation on the number of licenses available for issuance therein. These assets, considered indefinite-lived intangible assets, are not subject to amortization, but instead are subject to an annual impairment test, performed in the fourth quarter of each year, and between annual test dates in certain circumstances. If the fair value of an indefinite-lived intangible asset is less than its carrying amount, an impairment loss is recognized equal to the difference. The gaming licenses and the tradename were tested for impairment using a qualitative assessment approach as of December 31, 2021. See Note 3.

Goodwill, Net—Goodwill is an asset representing the future economic benefits arising from other assets in a business combination that are not individually identified and separately recognized and relates to the acquisition of SCE. Goodwill is not subject to amortization, but it is subject to an annual impairment test and between annual test dates if an event occurs or circumstances change that indicate that the fair value of the reporting unit may be below its carrying amount. Goodwill was tested for impairment using a qualitative assessment approach as of December 31, 2021. See Note 3.

Other Assets—On February 19, 2021, RVA entered into the Urban One Venture agreement and holds a preferred stock interest of up to $30 million. As of September 30, 2022, $6.5 million is recorded in other assets related to this agreement, which is the portion held in escrow as described in Note 8.

Other assets also include favorable leasehold interests which represent the rental rates for assumed land leases that are favorable to comparable market rates at SCE which were recorded at fair value as part of the acquisition. The fair value was determined on a technique whereby the difference between the lease rate and the then current market rate for the remaining contractual term is discounted to present value. The assumptions underlying this computation include the actual lease rates, the expected remaining

lease term, including renewal options, based on the existing lease; current rates of rent for leases on comparable properties with similar terms obtained from market data and analysis; and an assumed discount rate. The resulting difference between the lease rate and the then current market value rate is recognized as rent expense and the associated discount is accreted to interest income using the effective interest method over the term of the underlying lease which cover a term of 20 to 40 years.

In addition, other assets include the fair value of the payment in lieu of property taxes agreement determined as part of the Lago purchase accounting performed in August 2019. This other asset is being amortized over the remaining life of the agreement with the Seneca County Industrial Development Agency ("IDA").

Player Loyalty Point Program—The Company has established promotional programs to encourage repeat business from frequent and active HHR and slot machine customers and other patrons. Members earn points based on gaming and HHR activity and such points can be redeemed for free slot play, food and beverage, and other free goods and services. The player loyalty point program accrual is included in Other accrued expenses on the Company's condensed consolidated balance sheet. This is the primary type of liability associated with contracts with customers and represents a deferral of HHR and gaming revenue until the customer redeems the incentives earned, and are typically expected to be redeemed and recognized within one year or sooner of being earned. The program liabilities are recorded net of an estimated "breakage" factor, which assumes that some points will expire without being redeemed; the breakage is estimated based on historical redemption rates. The Company's loyalty program liabilities were $3.5 million as of September 30, 2022.

Revenue Recognition—The Company's revenue from contracts with customers consists of gaming wagers, pari-mutuel wagers, food and beverage transactions, retail transactions, hotel room sales, and revenues from our Strategic Gaming Agreement.

The transaction price for a gaming wagering contract is the difference between gaming wins and losses, not the total amount wagered. The transaction price for our pari-mutuel operations, inclusive of HHR operations, live racing events conducted at our racing facility and our import and export arrangements, is the commission received from the pari-mutuel pool. The transaction price for food and beverage, hotel and retail contracts is the net amount collected from the customer for such goods and services. Sales tax and other taxes collected on behalf of governmental authorities are accounted for on the net basis and are not included in revenues or expenses.

Gaming and HHR revenue contracts involve two performance obligations for those customers earning points under the Company's loyalty reward programs and a single performance obligation for customers that do not participate in the program. Our pari-mutuel operations contracts involve one performance obligation. The Company applies a practical expedient by accounting for its gaming and HHR contracts on a portfolio basis as such wagers have similar characteristics and the Company reasonably expects the effects on the financial statements of applying the revenue recognition guidance to the portfolio to not differ materially from that which would result if applying the guidance to an individual wagering contract. For purposes of allocating the transaction price in a wagering contract between the wagering performance obligation and the obligation associated with the loyalty points earned, the Company allocates an amount to the loyalty point contract liability based on the stand-alone selling price of the points earned, which is determined by the value of a point that can be redeemed for slot play, HHR play and complimentaries such as food and beverage at our restaurants, lodging at our hotel and products offered at our retail stores, less estimated breakage. The allocated revenue for gaming wagers is recognized when the wagering occurs as all such wagers settle immediately. The loyalty reward contract liability amount is deferred and recognized as revenue when the customer redeems the loyalty points for slot play, HHR play and complimentaries and such goods and services are delivered to the customer.

Pari-mutuel revenue contracts are inclusive of the Company's (i) HHR, (ii) host racing facility, (iii) import arrangements that permit the Company to simulcast in live racing events occurring at other racetracks, and (iv) export arrangements that permit the Company's live racing event to be simulcast at other racetracks. Host racing facility, import and export revenues are recognized once the race event is made official by the relevant racing body. HHR revenue is recognized once the historical race has been completed on the HHR machine. The Company has concluded it is the controlling entity to the HHR, host racing facility, and export arrangements as it functions as the principal in the arrangement and is not the controlling entity to the import arrangements as it functions as the agent. Commissions earned from the pari-mutuel pool less import arrangement fees are recognized on a net-basis, which is included within live and simulcast racing revenues. Any other fees associated with these arrangements are recorded in live and simulcast racing expenses.

The Company collects advanced deposits related to event tickets for our entertainment venues. Advance deposits are recognized as revenue upon the occurrence of the event. In addition, pursuant to New York Racing, Pari-Mutuel Wagering and Breeding Law §1311, Lago is guaranteed an aggregate payment of $5.0 million per year for mobile sports wagering platform server fees. These fees are recognized as revenue over the course of the year starting from the date mobile sports wagering occurred. The Company's deferred revenue related to the New York mobile sports wagering platform server fees was $2.4 million as of September 30, 2022 and is recorded in Other accrued expenses on the condensed consolidated balance sheet.

Food and beverage, hotel and retail services have been determined to be separate, standalone performance obligations and the transaction price for such contracts is recorded as revenue as the good or service is transferred to the customer over their stay at the hotel or when the delivery is made for the food and beverage or retail product.

The retail value of accommodations, food and beverage, and other services furnished to guests for free as an inducement to gamble is included in food, beverage, hotel and other revenue and offset as a deduction to gaming revenue and consists of the following:

(in thousands)		Nine Months Ended September 30, 2022
Food and beverage	$	7,153
Hotel		2,500
Other		861
Total amount recorded in food and beverage, hotel and other revenues and offset to gaming revenues	$	10,514

Regulatory Taxes—The Company is subject to taxes based on gross HHR, gaming, and live and simulcast racing revenues in the jurisdictions in which we operate. Lago is also subject to an annual assessment per gaming position. Taxes are assessed based on these revenues and along with the assessment fee are recorded as a HHR, gaming and live and simulcast racing expense, respectively, in the condensed consolidated statement of operations. These taxes and fees totaled $85.6 million for the nine months ended September 30, 2022.

Advertising—Direct advertising costs are expensed the first time such advertising appears. Advertising costs are included in Marketing expense on the condensed consolidated statement of operations and totaled $5.9 million for the nine months ended September 30, 2022.

Equity Based Compensation—In 2018, P2E Holdings granted "profits interests" ("IUPs") under the P2E Holdings 2018 Class B Unit Plan (the "IUP Plan") to five executive officers and employees of the Company and represents in the aggregate 9.8% of the outstanding membership units of P2E Holdings as of September 30, 2022.

The terms of the awards include specified vesting schedules and acceleration of vesting upon the occurrence of certain events. The profits interests awarded under the IUP Plan entitle the holders thereof to receive distributions from P2E Holdings on a pro rata basis with all other members of P2E Holdings and distributions on liquidation, in each case only to the extent such distributions exceed the applicable distribution threshold, as defined in each IUP agreement. On October 23, 2020, all of the IUPs under the IUP Plan became 100% vested.

The IUPs contain a put option exercisable by the holder that, under the terms of the agreement, can be settled in cash. As such, the IUPs are liability awards that require remeasurement at each reporting period. The Company has elected to measure its liabilities incurred under share-based payment arrangements at fair value. On a quarterly basis, the Company estimates the fair value of the IUPs and compares that value to the value of such incentive units at the date of grant.

The fair value of the incentive units is based on the probability weighted expected return method weighted 100% toward the acquisition model. The significant assumption used in the acquisition model is the active transaction with Churchill Downs Incorporated (see Note 1).

Any appreciation or depreciation in the value of the incentive units is expensed or credited to expense based on the percentage of the grant vested. For the nine months ended September 30, 2022, the Company was allocated an expense of $61.3 million related to the IUPs from P2E Holdings, which was recorded as expenses to General and administrative expense and a non-cash member contribution.

Income Taxes—The Company is organized and taxed as a limited liability corporation and taxed as a partnership for state and federal income tax purposes. Substantially all items of income, expense and available tax credits are passed through to the Company's member. Accordingly, there is no provision for federal income tax and state income tax expense reflected in the condensed consolidated financial statements.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Recently Issued Accounting Pronouncements— Accounting Standards Update 2020-04, Reference Rate Reform ("Update 2020-04")

In March 2020, the Financial Accounting Standard Board (FASB) issued Update 2020-04 to provide optional guidance for a limited period of time to ease the potential burden in accounting for reference rate reform on financial reporting. Entities may elect to apply Update 2020-04 as of any period that includes, or is subsequent to, March 12, 2020 through December 31, 2022. The Company is evaluating the impact of the adoption of Update 2020-04 to the condensed consolidated financial statements.

Accounting Standards Update 2016-02, Leases ("Update 2016-02")

In February 2016, the FASB issued Update 2016-02 which requires the recognition of lease assets and lease liabilities on the balance sheet and the disclosure of key information about leasing arrangements. The standard, as amended, is effective for financial statements issued for annual periods beginning after December 15, 2021. The Company is evaluating the impact of the adoption of Update 2016-02, as amended, to the condensed consolidated financial statements.

2. PROPERTY AND EQUIPMENT, NET

Property and equipment, net at September 30, 2022 consists of the following:

(in thousands)		September 30, 2022
Land and improvements	$	58,868
Building and improvements		411,179
Furniture, fixtures and equipment		136,125
Construction in progress		113,030
Total property and equipment		719,202
Less accumulated depreciation		(116,519)
Property and equipment, net	$	602,683

Construction in progress primarily relates to costs capitalized in conjunction with the development of CDG facilities or major improvements that have not yet been placed into service, and accordingly, such costs are not currently being depreciated.

Depreciation expense for the nine months ended September 30, 2022 was $28.4 million.

3. INTANGIBLE ASSETS, NET AND GOODWILL, NET

Intangible assets, net consist of the following:

	September 30, 2022				
(in thousands)	Weighted Average Life Remaining (Years)	Gross Carrying Value	Cumulative Amortization	Cumulative Impairment Losses	Intangible Assets, Net
Amortizing intangible assets:					
Player relationships	2.0	$ 4,850	$ (2,374)	$ —	$ 2,476
Indefinite-lived intangible assets:					
Lago tradename	Indefinite	21,100	—	(5,100)	16,000
Gaming licenses *	Indefinite	160,200	—	(18,700)	141,500
Balance, September 30, 2022		$ 186,150	$ (2,374)	$ (23,800)	$ 159,976

* The gaming license in the State of Louisiana related to Legends was classified as held for sale as of September 30, 2022 and is included in Other assets - held for sale on the condensed consolidated balance sheet as described in Note 1 and, as such, is excluded herein.

Amortization expense was $0.9 million for the nine months ended September 30, 2022.

Goodwill

The following tables sets forth the changes in goodwill:

ACTIVITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

(in thousands)	Gross Carrying Value	Cumulative Impairment Losses	Goodwill, Net
Balance, December 31, 2021	$ 62,338	$ (39,300)	$ 23,038
Impairment	—	—	—
Balance, September 30, 2022	$ 62,338	$ (39,300)	$ 23,038

Future Amortization

The player relationships intangible asset is being amortized on a straight line basis over its approximate four year useful life.

The future amortization of intangible assets is as follows:

(in thousands)		Player Relationships
For the year ending December 31:		
Remaining 2022	$	304
2023		1,212
2024		960
Total future amortization	$	2,476

Impairment Considerations

Indefinite lived intangible assets as of September 30, 2022 include the tradename and the gaming licenses. Indefinite lived intangible assets and goodwill are not subject to amortization, but they are subject to an annual impairment test in the fourth quarter of each year and between annual test dates in certain circumstances. No impairments were recorded during the nine months ended September 30, 2022 or as a result of the annual impairment tests performed as of December 31, 2021.

4. DEBT

Long-term debt, net of current maturities and debt issuance costs and original issuance discounts consists of the following:

	September 30, 2022								
(in thousands)	Interest Rate at September 30, 2022		Outstanding Principal		Unamortized Premium		Unamortized Origination Fees and Costs		Long-Term Debt, Net
Senior notes	8.5%	$	850,000	$	16,616	$	(28,651)	$	837,965
Less current maturities			—		—		—		—
Long-term debt, net		$	850,000	$	16,616	$	(28,651)	$	837,965

Senior Notes

On October 23, 2020, the Company and Peninsula Pacific Entertainment Finance, Inc., as co-issuers (together the "Issuers") issued $475.0 million in aggregate principal amount of 8.50% Senior Notes due 2027 ("Senior Notes") issued under the indenture dated October 23, 2020 (along with its supplements, collectively the "indenture") at par. Interest on the Senior Notes is payable on May 15 and November 15 of each year, commencing on May 15, 2021. The Senior Notes are guaranteed by the Company's restricted subsidiaries as defined in the indenture. On February 8, 2021, the Issuers issued an additional $75.0 million in aggregate principal of Senior Notes under the indenture at an issue price of 106.75% plus accrued and unpaid interest from October 23, 2020. On April 20, 2021, the Issuers issued an additional $300.0 million in aggregate principal of Senior Notes under the indenture at an issue price of 105.50% plus accrued and unpaid interest from October 23, 2020.

P2E Credit Facility

On October 23, 2020, the Company entered into a credit agreement with Credit Suisse AG, Cayman Islands Branch as administrative agent and collateral agent ("P2E Credit Facility"). The P2E Credit Facility permits the Company to request advances and letters of credit up to a maximum amount of $75.0 million.

As of September 30, 2022, the Company had no outstanding borrowings and $7.4 million of letters of credit were outstanding under the P2E Credit Facility, leaving $67.6 million of available borrowings.

Maturity Schedule

The scheduled maturities of long-term debt outstanding as of September 30, 2022, as discussed above, is as follows:

(in thousands)

For the year ending December 31,	
2022	$ —
2023	—
2024	—
2025	—
2026	—
Thereafter	850,000
Total	$ 850,000

Covenants

As of September 30, 2022, we believe that the Company and its subsidiaries were in compliance with the financial covenants of their respective debt instruments.

Extinguishment of Debt

On November 1, 2022, all outstanding indebtedness under the Senior Notes was paid in full and all existing debt agreements as described above were terminated as part of the transaction with CDI as described in Note 1.

5. COMMITMENTS AND CONTINGENCIES

Commitments

CDG entered into an agreement (along with its amendments) with a third party to provide CDG with its HHR system to be used at Colonial Downs and CDG's satellite wagering facilities. During the nine months ended September 30, 2022, CDG expensed $30.3 million in system and game fees related to this agreement and is recorded in HHR expense on the condensed consolidated statement of operations.

CDG entered into a Revenue Sharing Agreement ("RSA") with the Virginia Equine Alliance and related horseracing entities (together, the "VEA"). During the nine months ended September 30, 2022, CDG expensed $16.0 million related to the RSA and is recorded in HHR expense on the condensed consolidated statement of operations.

On January 5, 2022, CDG and a third party entered into an agreement for the construction of Rosie's Gaming Emporium - Emporia, and that the project will be completed on a cost of the work plus a fee basis and on a designated construction completion schedule. On January 5, 2022, the cost-plus budget amount was agreed to at $18.2 million.

On February 14, 2022, CDG and a third party entered into an agreement for the construction of The Rose Gaming Resort, and that the project will be completed on a cost of the work plus a fee basis with a guaranteed maximum price (the "GMP Amount"), and on a designated construction completion schedule. On April 19, 2022, the GMP Amount was agreed to at $209.7 million, subject to additions or deductions by change orders as provided in the contract documents.

In 2013, SCE entered into a Development Agreement and Minimum Assessment Agreement with the City of Sioux City, Iowa (the "City"). Under the Minimum Assessment Agreement, SCE and the City agreed to a minimum taxable value related to the new casino of $51 million. As of September 30, 2022, the remaining obligation under the Minimum Assessment Agreement was $1.5 million, which was recorded in accrued liabilities on the condensed consolidated balance sheet and $9.4 million, net of a $1.2 million discount, which was recorded as a long-term obligation on the condensed consolidated balance sheet.

In 2013, SCE entered into a license agreement to operate the casino under the "Hard Rock Casino" and "Hard Rock Hotel" trademarks. SCE paid $2.0 million in license fees for the nine months ended September 30, 2022, which are included in General and administrative expenses on the condensed consolidated statement of operations.

As part of the SCE acquisition, a liability of $6.5 million was recorded related to penalties and interest related to certain compliance reporting matters that relate to the pre-acquisition period and an indemnification receivable of $3.2 million was recorded from the seller in accordance with the provisions of the MIPA. In 2021, the liability and receivable were subsequently decreased by $0.4 million and $0.2 million, respectively, during the purchase accounting measurement period. In January 2022 and March 2022, the Company received notices that the penalties were forgiven. Based on the notices, the Company reduced the liability by $2.0 million, the receivable by $1.0 million, and recorded a loss recovery of $1.0 million during the fourth quarter ended December 31, 2021 and reversed the remaining liability of $4.0 million, the receivable of $2.0 million, and recorded a loss recovery of $2.0 million during the nine months ended September 30, 2022. The loss recovery is recorded in General and administrative expense on the condensed consolidated statement of operation for the nine months ended September 30, 2022.

In October 2015, Lago entered into a Community Mitigation Plan ("CMP") with the Town of Tyre, New York. The CMP outlines various obligations of Lago to help mitigate the impact of the del Lago development on the local community. Such obligations include, but are not limited to, workforce development, problem gambling treatment funding, agricultural and wildlife conservation, infrastructure improvements, and emergency services funding and improvements. Payments under the CMP are approximately $0.6 million per year.

In December 2015, Lago entered into an Agency Tax Agreement ("Tax Agreement") and a Leaseback Agreement ("Leaseback Agreement") with the IDA. The Tax Agreement calls for fixed payments over a 20 year period beginning in 2017 in lieu of property taxes and the Leaseback Agreement calls for fixed payments of $100,000 per year over a 10 year period beginning in 2015.

In December 2015, Lago entered into the 318 Corridor Contribution Letter Agreement ("318 Agreement") with Seneca County. The 318 Agreement calls for annual payments for a period of 22 years beginning in 2017 to help Seneca County with infrastructure and community development.

The scheduled payments under the Tax Agreement, Leaseback Agreement and 318 Agreement are as follows:

(in thousands)		
For the year ending December 31:		
2023	$	1,860
2024		1,960
2025		1,960
2026		2,060
Thereafter		29,626
Total scheduled payments	$	37,466

Rent expense for the Company's operating leases was $5.9 million for the nine months ended September 30, 2022.

Contingencies

Based upon regulations adopted on April 10, 2019, the New York State Gaming Commission ("Commission") is authorized to assess, on an annual basis, certain costs necessary to maintain regulatory control over commercial gaming facilities, which in turn will be paid by the operators of the commercial gaming facilities to the Commission on a pro rata basis by number of gaming positions. This authorization includes notification of anticipated costs for the coming state fiscal year (April 1 to March 31), remittance of funds prior to the start of said fiscal year, and reconciliation of overages or deficiencies at the conclusion of said fiscal year based on actual costs incurred.

Prior to April 2019, Lago had been accruing an estimate for potential regulatory costs. However, as Lago did not receive the required assessment prior to the April 1, 2019 deadline set forth in the regulation, it was determined that the Lago did not have a liability for any regulatory costs and therefore, the amount accrued prior to April 2019, the date the Commission passed the above noted regulation, was reversed.

In November 2019, Lago received an invoice for $3.3 million covering the periods from December 1, 2016 through March 31, 2019. In November 2020, Lago received an invoice for $1.4 million covering the periods from April 1, 2019 through March 31, 2020. In November 2021, Lago received an invoice for $0.8 million covering the periods from April 1, 2020 through March 31, 2021. In January 2023, Lago received an invoice for $1.6 million covering the periods from April 1, 2021 through March 31, 2022. The Company believes that the invoices seek the recovery of costs beyond the Commission's legal authority to collect because the Commission is attempting to collect for costs including those incurred (i) prior to the period for which the Commission may legally recover costs, and (ii) outside the type of those that the Commission is legally authorized to collect.

While the Company believes it is reasonably possible that it may be required to pay some portion of these regulatory costs, such amounts cannot be reasonably estimated; therefore, an expense and related liability has not been recorded in the accompanying condensed consolidated financial statements.

In June 2022, the Company identified certain compliance reporting matters related to the CDG properties for the years ended December 31, 2019, 2020, and 2021 which were self-reported and corrected. While it is reasonably possible that penalties up to $8.0 million could be assessed, the Company believes that, based upon the fact that the Company identified, self-reported, and corrected the matters and its past history with similar matters, the penalties, if assessed, would be abated. As such, no liability has been recorded related to these matters as of September 30, 2022.

We are parties to various legal proceedings arising in the ordinary course of business. We believe that all pending claims, if adversely decided, would not have a material adverse effect on our business, financial position or results of operations.

6. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

(in thousands)		September 30, 2022
Payroll and related expenses	$	5,319
Historical horse racing and gaming		17,305
Live and simulcast racing		11,499
Player loyalty point programs		3,461
Taxes		6,785
Legal		8,759
Other		10,881
Total other accrued expenses	$	64,009

7. FAIR VALUE MEASUREMENTS

We have adopted the authoritative accounting guidance for fair value measurements, which does not determine or affect the circumstances under which fair value measurements are used, but defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions.

These inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

As required by the guidance for fair value measurements, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Thus, assets and liabilities categorized as Level 3 may be measured at fair value using inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

Balances Measured at Fair Value

The following tables show the fair values of certain of our financial instruments:

	September 30, 2022			
(in thousands)	Balance	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 120,300	$ 120,300	$ —	$ —
Restricted cash	1,744	1,744	—	—

The fair value of our cash and cash equivalents and restricted cash, classified in the fair value hierarchy as Level 1, are based on statements received from our banks at September 30, 2022.

As discussed in Note 1, significant assumptions utilized in the fair value of our profits interests are not observable in the market and are thus classified in the fair value hierarchy as Level 3 measurements.

Balances Disclosed at Fair Value

The following tables provide the fair value measurement information about certain of our financial instruments:

	September 30, 2022			
(in thousands)	Outstanding Face Amount	Carrying Value	Estimated Fair Value	Fair Value Hierarchy
Liabilities				
Minimum assessment agreement	$ 12,200	$ 10,868	$ 11,455	Level 3
Senior notes	850,000	837,965	912,586	Level 2

The estimated fair value of our Senior Notes is based on quoted market prices as of September 30, 2022. We have estimated the fair value of the minimum assessment agreement using a discounted cash flow approach, after giving consideration to the changes in market rates of interest, creditworthiness of the parties, and credit spreads. The weighted average discount rate used in calculating the fair value of the minimum assessment agreement was 6.9% as of September 30, 2022.

There were no transfers between Level 1, Level 2 and Level 3 measurements during the nine months ended September 30, 2022.

8. RELATED PARTY TRANSACTIONS

M. Brent Stevens, Chairman of the Board of Managers, through his position as Manager of PGPI controls the Company. As such, Mr. Stevens had the ability to significantly influence the Company's affairs, including the election of members of the Board of Managers and, except as otherwise provided by law, approving or disapproving other matters, including a merger, consolidation, or sale of assets.

On October 23, 2020, the Company entered into a management services agreement with JNB Gaming, LLC ("JNB") ("P2E MSA"). Three of the members of the Board of Managers of P2E Holdings, through their combined ownership percentages of JNB, have the ability to significantly influence JNB's affairs. The P2E MSA has a term of seven years. As consideration for the services provided under the P2E MSA, the Company pays JNB a management fee equal to 1% of the gross revenue of each of CDG and SCE plus 5% of EBITDAM (as defined in the agreement) of each of P2E, CDG and SCE and to pay a fixed employee expense payment of $2.5 million per year. Beginning, April 20, 2021, the management services for Lago were governed by the P2E MSA which was amended in April 2021 to include Lago as well as certain other subsidiaries and facilities that may be developed and/or acquired in the future under similar terms as described above and as defined in the agreement. Total management fees under the P2E MSA were $15.6 million for the nine months ended September 30, 2022. As a result of the acquisition by CDI pursuant to the P2E Purchase Agreement on November 1, 2022, the P2E MSA was terminated.

Legends is a party to a management services agreement with JNB dated August 1, 2016 ("Legends MSA"). Under the Legends MSA, JNB is paid a $0.4 million annual management fee to manage Legends. Total management fees under the Legends MSA were $0.3 million for the nine months ended September 30, 2022.

The Company is a party to an agreement with a marketing agency to provide branding and design services. The marketing agency is owned by two principals of JNB. The Company paid approximately $0.8 million during the nine months ended September 30, 2022. The agreement was negotiated at an arms-length and was subject to the Company's regular bidding procedures.

On July 30, 2021, the Company contributed $6.5 million (via RVA) to the Urban One Venture which was used to partially fund a $26 million upfront payment to be held in escrow pending the results of the citywide referendum permitting the development of the casino. As discussed in Note 1, due to the legislative action taken by the General Assembly, the referendum will not be placed on the November 2022 ballot and the $6.5 million in escrow is eligible to be returned to the Company.

On April 7, 2022, June 21, 2022, and September 8, 2022, the Company made distributions to P2E Holdings of $33.6 million, $7.2 million, and $7.2 million, respectively.

9. SUBSEQUENT EVENTS

Other than as disclosed, no events have occurred after September 30, 2022, but before January 9, 2023, the date the condensed consolidated financial statements were issued, that require adjustments to or disclosures in the condensed consolidated financial statements.

CHURCHILL DOWNS INCORPORATED UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL INFORMATION

On November 1, 2022 (the "Closing Date"), pursuant to that certain Purchase Agreement (as amended by the Amendment, the "Purchase Agreement"), dated as of February 18, 2022, as amended September 2, 2022 (the "Amendment"), by and between Churchill Downs Incorporated, a Kentucky corporation (the "Company" or "CDI") and Peninsula Pacific Entertainment Holdings LLC ("P2E Holdings"), the Company completed its previously announced acquisition of the following properties (the "P2E Transaction"): Colonial Downs Racetrack in New Kent, Virginia, six historical racing entertainment venues across Virginia, del Lago Resort & Casino in Waterloo, New York, and the Hard Rock Hotel & Casino in Sioux City, Iowa.

The Company paid an aggregate consideration of US$2.75 billion in cash in connection with the P2E Transaction, subject to customary adjustments for working capital, indebtedness and certain other adjustments as set forth in the Purchase Agreement.

The unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses." The unaudited pro forma condensed combined statements of income for the nine months ended September 30, 2022 and for the year ended December 31, 2021 give effect for the acquisition as if they had occurred on the first day of the earliest period presented. The unaudited pro forma condensed combined balance sheet gives effect to the acquisition as if it had occurred on September 30, 2022.

The historical consolidated financial information of CDI and Peninsula Pacific Entertainment, LLC ("P2E") has been adjusted in the unaudited pro forma condensed combined financial information. The unaudited pro forma condensed combined financial information is based on various assumptions, including assumptions related to the consideration paid and the allocation thereof to the assets acquired and liabilities assumed from P2E based on preliminary estimates of fair value. The pro forma assumptions and adjustments are described in the accompanying notes to the unaudited pro forma condensed combined financial information. The unaudited pro forma condensed combined financial information were based on and should be read in conjunction with the following historical consolidated financial statements and accompanying notes of CDI and P2E for the applicable periods:

- Condensed consolidated financial statements and related notes of CDI as of September 30, 2022 and for the nine months ended September 30, 2022 included in CDI's Quarterly Report on Form 10-Q that CDI filed with the U.S. Securities and Exchange Commission ("SEC") on October 26, 2022;
- Condensed consolidated unaudited financial statements and related notes of P2E as of September 30, 2022 and for the nine months ended September 30, 2022 included in Exhibit 99.2 of this Form 8-K/A;
- Consolidated financial statements and related notes of CDI as of and for the year ended December 31, 2021 included in CDI's Annual Report on Form 10-K that CDI filed with the SEC on February 23, 2022; and
- Combined and consolidated financial statements and related notes of P2E as of and for the year ended December 31, 2021 included in Exhibit 99.1 of this Form 8-K/A.

The pro forma adjustments have been made solely for the purposes of developing the pro forma financial information for illustrative purposes necessary to comply with the requirements of the SEC. The actual results reported by the combined company in periods following the acquisition may differ significantly from that reflected in these unaudited pro forma condensed combined financial information for a number of reasons, including but not limited to cost savings from operating efficiencies, synergies and the impact of the incremental costs incurred in integrating the companies. As a result, the pro forma condensed combined financial information is not intended to represent and does not purport to be what the combined company's financial condition or results of operations would have been had the acquisition been completed on the applicable dates of this pro forma condensed combined financial information. In addition, the pro forma condensed combined financial information does not purport to project the future financial condition and results of operations of the combined company. The final purchase price and the allocations thereof may differ from that reflected in the pro forma condensed combined financial information after final valuation procedures are performed and amounts are finalized following completion of the acquisition.

CDI funded the acquisition with cash on hand and from the proceeds from (i) the issuance of 5.750% senior notes due 2030 included in Notes Payable on the condensed consolidated balance sheet of CDI as of September 30, 2022,

(ii) draws under the revolving credit facility and from a senior secured delayed draw term loan A credit facility due 2029, in each case, under its senior secured credit agreement and (iii) the sale of excess land near Calder Casino in the second quarter of 2022 and included in Restricted Cash on the condensed consolidated balance sheet of CDI as of September 30, 2022 (the “Related Financing Transactions”).

Churchill Downs Incorporated
Pro Forma Condensed Combined Statement of Income
For the nine months ended September 30, 2022
(Unaudited)

	Historical		Transaction Accounting Adjustments			
(in millions, except per common share data)	**CDI**	**P2E**	**Reclassification Adjustments (Note 1)**	**P2E Excluded Entities (Note 1)**	**Pro Forma Adjustments (Note 4)**	**Pro Forma Combined**
Net revenue:						
Live and Historical Racing	$ 439.2	$ —	$ 270.9	$ —	$ —	$ 710.1
TwinSpires	343.3	—	—	—	—	343.3
Gaming	545.0	177.4	33.7	—	—	756.1
Historical Horse Racing	—	248.0	(248.0)	—	—	—
Live and Simulcast Racing	—	7.4	(7.4)	—	—	—
Food and Beverage	—	21.1	(21.1)	—	—	—
Hotel	—	8.4	(8.4)	—	—	—
All Other	2.2	19.7	(19.7)	—	—	2.2
Total net revenue	1,329.7	482.0	—	—	—	1,811.7
Operating expense:						
Live and Historical Racing	269.2	—	137.7	—	—	406.9
TwinSpires	229.6	—	—	—	—	229.6
Gaming	387.0	72.6	38.3	—	4.1 **(E)**	502.0
All Other	8.8	5.4	0.6	(0.1)	—	14.7
Selling, general and administrative expense	112.7	124.0	—	(4.4)	—	232.3
Historical Horse Racing	—	96.4	(96.4)	—	—	—
Live and Simulcast Racing	—	9.2	(9.2)	—	—	—
Asset Impairments	4.9	—	—	—	—	4.9
Transaction expense, net	7.4	—	0.3	—	—	7.7
Food and Beverage	—	17.4	(17.4)	—	—	—
Hotel	—	3.8	(3.8)	—	—	—
Marketing	—	20.2	(20.2)	—	—	—
Management Fees	—	15.9	—	(0.3)	—	15.6
Depreciation and Amortization	—	29.3	(29.3)	—	—	—
Development Expense	—	4.0	(0.3)	(3.7)	—	—
Pre-opening Expense	—	0.5	(0.5)	(0.1)	—	(0.1)
Gain on Disposal	—	(0.2)	0.2	—	—	—
Total operating expense	1,019.6	398.5	—	(8.6)	4.1	1,413.6
Operating income (loss)	310.1	83.5	—	8.6	(4.1)	398.1
Other income (expense):						
Interest expense, net	(92.6)	—	—	—	(100.0) **(C)**	(192.6)
Interest income	—	0.4	—	—	(0.4) **(B)**	—
Interest expense	—	(53.9)	—	—	53.9 **(B)**	—
Equity in income of unconsolidated investments	115.4	—	—	—	—	115.4
Gain on Calder land sale	274.6	—			—	274.6
Miscellaneous, net	4.4	—	—	—	—	4.4
Total other income (expense)	301.8	(53.5)	—	—	(46.5)	201.8
Income (loss) from operations before provision for income taxes	611.9	30.0	—	8.6	(50.6)	599.9
Income tax (provision) benefit	(173.5)	—	—	—	10.8 **(D)**	(162.7)
Net income (loss)	$ 438.4	$ 30.0	$ —	$ 8.6	$ (39.8)	$ 437.2
Net income per common share data:						
Basic net income	$ 11.52					$ 11.48
Diluted net income	$ 11.36					$ 11.33
Weighted average shares outstanding:						
Basic	38.1					38.1
Diluted	38.6					38.6

See accompanying notes to unaudited pro forma condensed combined financial information.

Churchill Downs Incorporated
Pro Forma Condensed Combined Statement of Income
For the year ended December 31, 2021
(Unaudited)

	Historical		Transaction Accounting Adjustments			
(in millions, except per common share data)	**CDI**	**P2E**	**Reclassification Adjustments (Note 1)**	**P2E Excluded Entities (Note 1)**	**Pro Forma Adjustments (Note 4)**	**Pro Forma Combined**
Net revenue:						
Live and Historical Racing	$ 409.1	$ —	$ 293.8	$ —	$ —	$ 702.9
TwinSpires	431.7	—	—	—	—	431.7
Gaming	695.4	227.7	34.2	—	—	957.3
Historical Horse Racing	—	271.1	(271.1)	—	—	—
Live and Simulcast Racing	—	7.9	(7.9)	—	—	—
Food and Beverage	—	21.7	(21.7)	—	—	—
Hotel	—	9.0	(9.0)	—	—	—
All Other	61.0	19.1	(18.3)	(0.1)	—	61.7
Total net revenue	1,597.2	556.5	—	(0.1)	—	2,153.6
Operating expense:						
Live and Historical Racing	288.9	—	149.9	—	—	438.8
TwinSpires	325.4	—	—	—	—	325.4
Gaming	476.3	90.3	54.5	—	0.6 **(E)**	621.7
All Other	60.5	6.2	0.1	(0.6)	—	66.2
Selling, general and administrative expense	138.5	155.4	—	(5.5)	—	288.4
Historical Horse Racing	—	104.6	(104.6)	—	—	—
Live and Simulcast Racing	—	9.6	(9.6)	—	—	—
Asset Impairments	15.3	11.7	—	—	—	27.0
Transaction expense, net	7.9	—	2.0	—	34.7 **(A)**	44.6
Food and Beverage	—	18.6	(18.6)	—	—	—
Hotel	—	4.0	(4.0)	—	—	—
Marketing	—	20.9	(20.9)	—	—	—
Management Fees	—	20.7	—	(0.4)	—	20.3
Depreciation and Amortization	—	45.2	(45.2)	—	—	—
Development Expense	—	21.6	(2.0)	(19.6)	—	—
Pre-opening Expense	—	1.1	(1.1)	—	—	—
Loss on Disposal	—	0.5	(0.5)	—	—	—
Total operating expense	1,312.8	510.4	—	(26.1)	35.3	1,832.4
Operating income (loss)	284.4	46.1	—	26.0	(35.3)	321.2
Other income (expense):						
Interest expense, net	(84.7)	—	—	—	(94.6) **(C)**	(179.3)
Interest income	—	0.3	—	—	(0.3) **(B)**	—
Interest expense	—	(81.5)	—	—	81.5 **(B)**	—
Equity in income of unconsolidated investments	143.2	—	—	—	—	143.2
Loss on extinguishment of debt, net	—	(2.6)	—	—	—	(2.6)
Miscellaneous, net	0.7	—	—	—	—	0.7
Total other income (expense)	59.2	(83.8)	—	—	(13.4)	(38.0)
Income (loss) from operations before provision for income taxes	343.6	(37.7)	—	26.0	(48.7)	283.2
Income tax (provision) benefit	(94.5)	—	—	—	15.2 **(D)**	(79.3)
Net income (loss)	$ 249.1	$ (37.7)	$ —	$ 26.0	$ (33.5)	$ 203.9
Net income per common share data:						
Basic net income	$ 6.45					$ 5.28
Diluted net income	$ 6.35					$ 5.20
Weighted average shares outstanding:						
Basic	38.6					38.6
Diluted	39.2					39.2

See accompanying notes to unaudited pro forma condensed combined financial information.

Churchill Downs Incorporated
Pro Forma Condensed Combined Balance Sheet
As of September 30, 2022
(Unaudited)

	Historical		Transaction Accounting Adjustments			
(in millions)	CDI	P2E	Reclassification Adjustments (Note 1)	P2E Excluded Entities (Note 1)	Pro Forma Adjustments (Note 5)	Pro Forma Combined
ASSETS						
Current assets:						
Cash and cash equivalents	$ 110.6	$ 120.3	$ —	$ (0.4)	$ (38.1) **(F)**	$ 192.4
Restricted cash	1,582.6	1.7	—	—	(1,445.0) **(F)**	139.3
Accounts receivable, net	69.4	9.3	—	—	—	78.7
Income taxes receivable	—	—	—	—	12.0 **(O)**	12.0
Other current assets	43.7	10.3	—	(2.2)	—	51.8
Other current assets - held for sale	—	0.9	—	(0.9)	—	—
Total current assets	1,806.3	142.5	—	(3.5)	(1,471.1)	474.2
Property and equipment, net	1,240.9	602.7	—	(16.6)	41.4 **(M)**	1,876.1
					7.7 **(L)**	
Investment in and advances to unconsolidated affiliates	661.0		—	—	—	661.0
Goodwill	375.7	23.0	—	—	(23.0) **(G)**	718.3
					342.6 **(G)**	
Other intangible assets, net	485.0	160.0	—	—	(160.0) **(G)**	2,397.6
					1,912.6 **(G)**	
Other assets	23.2	9.6	—	—	(1.4) **(M)**	31.4
Long-term assets held for sale	82.0	15.4	—	(15.4)	—	82.0
Total assets	$ 4,674.1	$ 953.2	$ —	$ (35.5)	$ 648.8	$ 6,240.6
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	$ 109.1	$ 6.5	$ —	$ (0.1)	$ —	$ 115.5
Accrued expenses and other current liabilities	300.2	64.0	—	(1.7)	8.1 **(P)**	370.6
Capital project payable	—	10.4	—	—	—	10.4
Accrued interest	—	27.3	—	—	(27.3) **(H)**	—
Income taxes payable	60.9	—	—	—	(60.9) **(O)**	—
Current deferred revenue	14.5	—	—	—	—	14.5
Current maturities of long-term debt	7.0	—	—	—	—	7.0
Current liabilities - held for sale	—	1.8	—	(1.8)	—	—
Total current liabilities	491.7	110.0	—	(3.6)	(80.1)	518.0
Long-term debt	684.4	838.0	—	—	(838.0) **(H)**	2,186.3
					717.0 **(F)**	
					800.0 **(F)**	
					(15.1) **(F)**	
Notes payable	2,489.4	—	—	—	—	2,489.4
Non-current deferred revenue	11.9	—	—	—	—	11.9
Deferred income taxes	279.6	—	—	—	(19.8) **(N)**	332.7
					72.9 **(O)**	
Minimum assessment agreement	—	9.3	—	—	—	9.3
Other liabilities	104.4	—	—	—	10.6 **(K)**	115.0
Total liabilities	4,061.4	957.3	—	(3.6)	647.5	5,662.6
Commitments and contingencies						
Shareholders' equity (deficit)	612.7	—	—	—	(34.7) **(I)**	578.0
Common member's interest	—	375.7	—	(202.2)	(173.5) **(J)**	—
Accumulated deficit	—	(379.8)	—	170.3	209.5 **(J)**	—
Total liabilities and shareholders' equity	$ 4,674.1	$ 953.2	$ —	$ (35.5)	$ 648.8	$ 6,240.6

See accompanying notes to unaudited pro forma condensed combined financial information.

Churchill Downs Incorporated
Notes to unaudited Pro Forma Condensed Combined Financial Information

Note 1 – Basis of Presentation

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting and was based on the historical audited financial statements of CDI and P2E as of and for the year ended December 31, 2021 and unaudited financial statements of CDI and P2E as of and for the nine months ended September 30, 2022. The unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses." Certain reclassifications have been made to the historical financial statements of P2E to conform to CDI's presentation.

The Purchase Agreement contemplated the acquisition by the Company of the following properties: Colonial Downs Racetrack in New Kent, Virginia, six historical racing entertainment venues across Virginia, del Lago Resort & Casino in Waterloo, New York, and the Hard Rock Hotel & Casino in Sioux City, Iowa. Certain entities owned by P2E were not included in the P2E Transaction, and have been excluded in the unaudited pro forma condensed combined financial information in a column titled "P2E Excluded Entities".

The unaudited pro forma condensed combined statement of income for the year ended December 31, 2021 and for the nine months ended September 30, 2022 give effect to the P2E Transaction and the interest expense on the Related Financing Transactions as if these transactions had occurred on the first day of the earliest period presented. The unaudited condensed combined balance sheet as of September 30, 2022 gives effect to the acquisition and the Related Financing Transactions as if these transactions had occurred on September 30, 2022.

The acquisition method of accounting is based on authoritative guidance for business combinations and uses the fair value concepts defined in authoritative guidance. The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting under U.S. GAAP.

The authoritative guidance for business combinations requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date if fair value can be reasonably estimated. If the fair value of an asset or liability that arises from a contingency cannot be determined, the asset or liability is recognized if it is probable that an asset existed or a liability has been incurred at the acquisition date and the amount of such asset or liability can be reasonably determined. In addition, the guidance establishes that the consideration transferred be measured at the Closing Date at the then-current market price.

Fair value is defined in the authoritative guidance as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." This is an exit price concept for the valuation of the asset or liability. Market participants are assumed to be buyers and sellers in the principal (or the most advantageous) market for the asset or liability. Fair value measurements for an asset assume the highest and best use by these market participants. Many of these fair value measurements can be highly subjective and it is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

The pro forma adjustments described below have been developed based on assumptions and estimates, including assumptions relating to the consideration to be paid and the allocation thereof to the assets acquired and liabilities assumed from P2E based on preliminary estimates of fair value. The final purchase price and the allocation thereof will differ from that reflected in the pro forma condensed combined financial information after final valuation procedures are performed and amounts are finalized.

The unaudited pro forma condensed combined financial information is provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of CDI would have been had the P2E Transaction and Related Financing Transactions occurred on the dates assumed, nor is the unaudited pro forma condensed combined financial information necessarily indicative of future consolidated results of operations or financial position.

The unaudited pro forma condensed combined financial information does not reflect any cost savings from operating efficiencies, synergies or other restructurings that could result from the P2E Transaction.

CDI has been determined to be the acquirer under the acquisition method of accounting based on various considerations. CDI paid cash as the acquisition consideration. Further, the Board of Directors and senior management of the combined company will be comprised primarily of current CDI board members and senior management, respectively.

CDI performed a review of P2E's accounting policies to determine whether any adjustments were necessary to ensure comparability in the pro forma condensed combined financial information. CDI is not aware of any differences that would have a material impact on the pro forma condensed combined financial information.

Note 2 — Preliminary Purchase Price Allocation

CDI allocated the purchase price paid to the fair value of the P2E assets acquired and liabilities assumed. The allocation of the preliminary estimated purchase price is based upon CDI management's estimates of and assumptions related to the fair values of assets acquired and liabilities assumed as of September 30, 2022, using currently available information. The excess of the purchase price over the fair value of net assets acquired will be allocated to goodwill. As of the date of this document, CDI has not completed a comprehensive final valuation analysis necessary to determine the fair values of P2E's identifiable assets acquired and liabilities assumed. Due to the fact that the unaudited pro forma condensed combined financial information has been prepared based on these preliminary estimates, the final purchase price allocation and the resulting effect on CDI's financial position and results of operations may differ materially from the pro forma amounts included herein.

The primary areas of the preliminary valuation that are not yet finalized relate to the fair values of amounts for income taxes, adjustments to working capital, fair value of intangible assets and property and equipment, and the final amount of residual goodwill.

The contractual purchase price contained working capital and other provisions that provided for incremental consideration to be paid for excess cash left in the business as well as construction costs for certain development projects in Virginia. The purchase price calculated for purposes of these pro forma financials was based on balance sheet metrics as of September 30, 2022. The actual purchase price paid as of the date of the acquisition, will differ from this pro forma calculation as a result of incremental activity that occurred between September 30, 2022 and November 1, 2022.

The purchase price consideration as of September 30, 2022, was $2,950.3 million. The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed, net of cash acquired of $121.6 million, as of September 30, 2022:

(in millions)		
Accounts receivable	$	9.3
Other current assets		8.1
Property, plant and equipment		627.5
Goodwill		342.6
Other intangible assets		1,912.6
Deferred taxes		19.8
Other assets		8.2
Total assets acquired		2,928.1
Accounts payable		6.4
Accrued expenses and other current liabilities		80.8
Other liabilities		12.2
Total liabilities acquired		99.4
Purchase price, net of cash acquired	$	2,828.7

The preliminary fair value of the other indefinite-lived intangible assets consists of the following:

(in millions)	Preliminary Fair Value
Gaming Rights	$ 1,835.8
Trademarks	76.8
	$ 1,912.6

Note 3 – CDI Financing

CDI funded the acquisition with cash on hand and from the proceeds from (i) the issuance of 5.750% senior notes due 2030 included in Notes Payable on the condensed consolidated balance sheet of CDI as of September 30, 2022, (ii) draws under the revolving credit facility and from a senior secured delayed draw term loan A credit facility due 2029, in each case, under its senior secured credit agreement which bear interest at secured overnight financing rate ("SOFR") plus 10 basis points, plus a variable applicable margin which is determined by the Company's net leverage ratio and (iii) the sale of excess land near Calder Casino in the second quarter of 2022 included in Restricted Cash on the condensed consolidated balance sheet of CDI as of September 30, 2022 (the "Related Financing Transactions").

The weighted-average interest rate on the Related Financing Transactions was 3.43% as of December 31, 2021 and 4.84% as of September 30, 2022.

Note 4 – Adjustments to Unaudited Pro Forma Condensed Combined Statements of Income

(A) Represents transaction costs of CDI for the P2E Transaction not yet recorded within the historical financial statements.

(B) Primarily to eliminate the interest income and expense incurred by P2E for the year ended December 31, 2021 and nine months ended September 30, 2022, respectively. The P2E debt was paid off at closing of the P2E Transaction and included in the purchase consideration.

(C) Represents the incremental interest expense under the Related Financing Transactions for the year ended December 31, 2021 and nine months ended September 30, 2022, respectively, as described further in the table below:

(in millions)	**For the year ended December 31, 2021**	**For the nine months ended September 30, 2022**
Revolver Capacity	$ 0.9	$ 0.7
Revolving Credit Facility	11.7	22.4
Term Loan A-1	13.0	25.1
Senior Unsecured Notes	69.0	51.8
Total interest expense	$ 94.6	$ 100.0

(D) The pro forma adjustment to the income tax provision represents the tax effect of the adjustments to income from continuing operations before provision for income taxes related to the results of the acquired P2E entities, the estimated transaction costs of the P2E Transaction, elimination of P2E's interest expense, and CDI's incremental interest expense related to the Related Financing Transactions. CDI has assumed a 27.0% and 26.0% blended income tax rate representing the estimated combined U.S. federal and state statutory rates in effect for the year ended December 31, 2021 and nine months ended September 30, 2022, respectively.

(E) Represents the incremental depreciation expense related to the property and equipment, net after adjustment to the preliminary fair value.

Note 5 – Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

(F) The sources and uses of funds related to the P2E Transaction are as follows:

Sources:		
Cash and restricted cash	$	1,483.1
Revolving credit facility		717.0
Term Loan A-1		800.0
Total	$	3,000.1
Uses:		
Cash consideration	$	2,950.3
Transaction costs		49.8
Total	$	3,000.1

Transaction costs of $49.8 million are composed of $34.7 million of the bank fees and legal costs associated with the P2E Transaction that are included as a Pro Forma Adjustment in the Condensed Combined Statement of Income. The additional $15.1 million is the debt issuance costs associated with the Related Financing Transactions that will be netted against the proceeds from the financing transaction.

Refer to Note 3 for further description of the Related Financing Transactions.

(G) See Note 2 for the purchase price allocation. This eliminates the historical goodwill and intangibles associated with P2E and records the estimated goodwill and intangibles associated with the P2E Transaction.

(H) To eliminate the principal and interest payable amounts related to the P2E debt.

(I) Represents the CDI transaction costs of the P2E Transaction.

(J) To eliminate the common member's interest and accumulated deficit of the P2E entities that were acquired.

(K) Primarily represents the establishment of the lease obligation required by the implementation of lease accounting in the amount of $7.7 million.

(L) Represents the establishment of right of use assets from the implementation of lease accounting at $7.7 million.

(M) Represents fair value adjustments as part of preliminary valuation analysis.

(N) The estimated tax impacts of the pro forma adjustments have been reflected in deferred income taxes in the unaudited pro forma condensed combined balance sheet by using a tax rate of 25.6%, unless otherwise stated. This tax rate was determined using the blended federal and state statutory tax rate of the jurisdictions expected to be impacted for the period presented. The total effective tax rate of CDI could be significantly different depending on the post-acquisition geographical mix of taxable income and other factors. Because the tax rate used for these unaudited pro forma condensed combined financial information is an estimate, it will likely vary from the actual rate in periods subsequent to the completion of the P2E Transaction and those differences may be material.

(O) Represents the reclassification of the tax liability related to the Calder land sale from current income taxes payable to deferred income taxes. Upon completion of the P2E Transaction, the tax gain associated with the sale is deemed to qualify as a like-kind exchange transaction under Internal Revenue Code § 1031, deferring recognition of federal income tax.

(P) Represents the establishment of a contingent liability identified as part of purchase accounting.

Note 6 – Management's Adjustments

Management expects that, following completion of the P2E Transaction, the post-acquisition company would have realized certain costs savings as compared to the historical combined costs of CDI and P2E operating independently. The costs include $87.2 million and $61.3 million of P2E Holdings grants of profits interests under the P2E Holdings 2018 Class B Unit Plan to five executive officers and employees of P2E and $20.3 million and $15.6 million of management fees charged to P2E by JNB Gaming, LLC for the year ended December 31, 2021 and the nine months ended September 30, 2022, respectively.

The below tables reflect the costs as if the P2E Transaction had been completed as of January 1, 2021. We have assumed the costs referred to above of $107.5 million for the year ended December 31, 2021 and $76.9 million for the nine months ended September 30, 2022 would not have occurred. The tax effect has been calculated based on the applicable statutory rates to the aforementioned adjustments. The pro forma financial information reflects all Management's Adjustments that are, in the opinion of management, necessary to a fair statement of the pro forma financial information presented.

	For the year ended December 31, 2021		
(in millions, except per common share data)	**Pro Forma Combined**	**Management's Adjustment**	**As Adjusted**
Operating income	$ 321.2	$ 107.5	$ 428.7
Income from operations before provision for income taxes	$ 283.2	$ 107.5	$ 390.7
Net income	$ 203.9	$ 78.5	$ 282.4
Net income per common share data:			
Basic net income	$ 5.28		$ 7.32
Diluted net income	$ 5.20		$ 7.20
Weighted average shares outstanding:			
Basic	38.6		38.6
Diluted	39.2		39.2

	For the nine months ended September 30, 2022		
(in millions, except per common share data)	**Pro Forma Combined**	**Management's Adjustment**	**As Adjusted**
Operating income	$ 398.1	$ 76.9	$ 475.0
Income from operations before provision for income taxes	$ 599.9	$ 76.9	$ 676.8
Net income	$ 437.2	$ 56.9	$ 494.1
Net income per common share data:			
Basic net income	$ 11.48		$ 12.97
Diluted net income	$ 11.33		$ 12.80
Weighted average shares outstanding:			
Basic	38.1		38.1
Diluted	38.6		38.6