



CHURCHILL DOWNS

INCORPORATED

Notice of Annual Meeting of Shareholders
2019 Proxy Statement
2018 Annual Report on Form 10-K

Dear Fellow Shareholders,

2018 was a strong year for your company.

We started the year by completing the sale of Big Fish Games for \$990 million and in February, we completed a Dutch Auction tender offer for \$500 million of our shares with a portion of the sale proceeds.

As tradition has it in early May, Churchill Downs hosted the 144th running of *The Kentucky Derby*. Despite being the wettest Kentucky Derby ever, Churchill Downs set all-time wagering records for the week and the Oaks and Derby races. Our team also completed two significant capital projects – the addition of the Starting Gate Suites and the new transportation / parking lot upgrade – both of which improved our guests' experiences and provided additional prime seating capacity. We have exciting plans for additional strategic investments in this iconic asset that will attract guests who want to experience the mystique and magic that only *The Kentucky Derby* can create.

We also demonstrated our ability to drive organic growth through strategic capital investment projects at our casino properties, which directly benefit our guests. Our expansion into historical racing machine (HRM) facilities in Kentucky is another example of our organic growth efforts. We opened the first HRM facility in Louisville, KY in September 2018 with 900 machines, and we were pleased to be awarded the racing license for Oak Grove, Kentucky, which is an hour north of Nashville, TN. We have started the construction of this \$150 million facility which initially will include 1,200 historical racing machines, a 125-room hotel, and a 1,200-person capacity grandstand.

We were also successful in growing our casino portfolio through acquisitions:

- **Ocean Downs in Berlin, MD**—In August 2018, we completed the Ocean Downs / Saratoga Transaction which resulted in 100% ownership in Ocean Downs and the sale of our interests in Saratoga while retaining the rights in New York and Colorado for online sports betting and iGaming in the future.
- **Presque Isle Downs and Casino in Erie, PA**—We completed the previously announced acquisition of Presque Isle Downs and Casino on January 11, 2019.
- **Rivers Casino in Des Plaines, IL**—We completed the transactions necessary to acquire ~61% of Midwest Gaming, the parent company of Rivers Casino Des Plaines on March 6, 2019.
- **Lady Luck Nemaquin in Farmington, PA**—We completed the transaction to acquire certain assets and the management agreement of Lady Luck Nemaquin on March 8, 2019.

With the U.S. Supreme Court's ruling opening the doors to legal sports betting in May 2018, we began our expansion into sports betting and iGaming with the launch of our retail BetAmerica Sportsbook at our two Mississippi casino properties in August 2018 and our online BetAmerica Sportsbook and Casino Gaming platform in New Jersey in February 2019.

In 2019, we are planning to launch our retail BetAmerica Sportsbook at our Presque Isle facility and our online BetAmerica Sportsbook and Casino gaming platform in Pennsylvania. We hope to expand our sports betting and iGaming offering into additional states in the future. The breadth of experience our team has from running TwinSpires (the industry-leading platform for legal online horse racing wagering) coupled with our online sports betting and iGaming industry experience provides the foundation necessary to lead this exciting expansion.

We are proud that we have returned over \$1 billion of capital to shareholders over the last five years, while delivering strong financial results and investing strategically to drive long-term sustainable growth. As we look to 2019 and beyond, we have strong cash flow and a solid balance sheet with capacity to support organic growth, strategic acquisitions, dividends, and share repurchases to create long-term value for our shareholders.

A special thanks to our team members who have demonstrated their capabilities, commitment, and determination to deliver sustainable long-term results in this dynamic environment for you, our shareholders.



R. Alex Rankin
Chairman of the Board

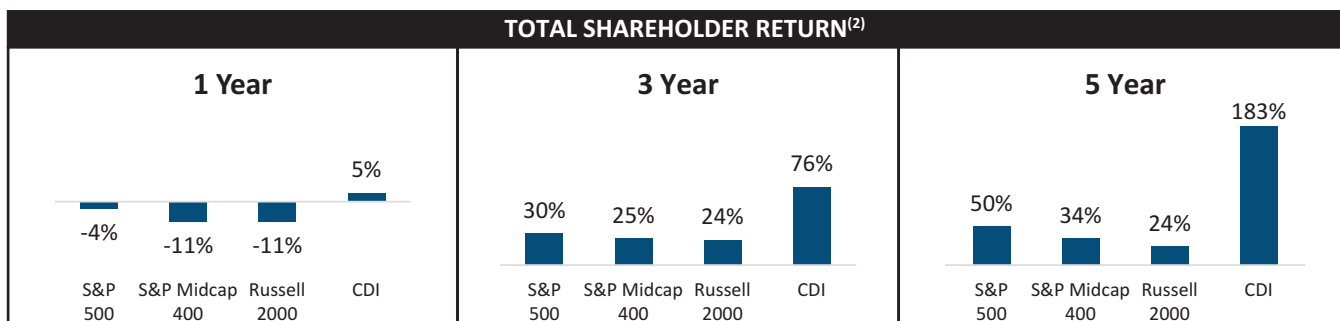


William C. Carstanjen
Chief Executive Officer

FINANCIAL HIGHLIGHTS

All share and per-share amounts have been retroactively adjusted to reflect the three-for-one stock split effective on January 25, 2019.

\$ in millions, except per share data	Year Ended December 31,		
	2016	2017	2018
Consolidated Financial Results			
Net revenue	\$ 822	\$ 883	\$1,009
Operating income	\$ 173	\$ 146	\$ 189
Net income from continuing operations	\$ 97	\$ 122	\$ 183
Diluted EPS from continuing operations	\$ 1.92	\$ 2.55	\$ 4.39
Adjusted EBITDA	\$252.3	\$286.2	\$328.8
Consolidated Balance Sheet			
Total Assets	\$2,254	\$2,359	\$1,725
Total Debt	\$ 922	\$1,129	\$ 884
Total Liabilities	\$1,569	\$1,719	\$1,252
Shareholders' Equity	\$ 685	\$ 640	\$ 473
Cash Flow and Liquidity			
Cash Flows from Operating Activities	\$ 231	\$ 215	\$ 198
Capital Maintenance Expenditures	\$ 31	\$ 33	\$ 30
Net Leverage Ratio ⁽¹⁾	2.6x	2.9x	2.3x
Shareholder Data:			
Dividends Declared per Common Share	\$0.440	\$0.507	\$0.543
Common Stock Share Repurchases	\$ 28	\$ 180	\$ 532
Year-End Closing Stock Prices	\$50.15	\$77.57	\$81.31
Equity Market Capitalization	\$2,480	\$3,586	\$3,285
Total Capitalization	\$3,402	\$4,715	\$4,169







- (1) Net leverage ratio is the ratio of total debt (less cash) to Adjusted EBITDA, which includes Big Fish Games for the 2016 and 2017 calculations.
- (2) Total Shareholder Return utilizing market closing prices as of the last trading day of each relevant year. Assumes dividends are reinvested.

CHURCHILL DOWNS INCORPORATED

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

DATE AND TIME:	Tuesday, April 23, 2019, at 9:00 a.m. Central Time
PLACE:	The Four Seasons Hotel, 120 E. Delaware Place, Chicago, Illinois 60611
AGENDA:	<ol style="list-style-type: none">I. To elect the two (2) Class II Directors identified in this Proxy Statement for a term of three (3) years (Proposal No. 1);II. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2019 (Proposal No. 2);III. To conduct an advisory vote to approve executive compensation (Proposal No. 3); andIV. To transact such other business as may properly come before the meeting or any adjournment thereof, including matters incident to its conduct. <p>Effective at our Annual Meeting, Mr. Richard L. Duchossois, who has served the Company as a director since 2000, will be retiring from the Board of Directors. We thank Mr. Duchossois for his service and express our appreciation for his dedication, contribution and leadership during his years with us.</p>
RECORD DATE:	The close of business on March 1, 2019, has been fixed as the record date for determining the shareholders entitled to notice of, and to vote at, the Annual Meeting. Only shareholders of record at that time will be entitled to notice of and to vote at the Annual Meeting and at any adjournments thereof.
VOTING:	<p>Shareholders who do not expect to attend the Annual Meeting in person are urged to vote by telephone or over the Internet, or by requesting and promptly signing and returning a proxy card, as more fully described in the Notice of Internet Availability of Proxy Materials.</p> <p>   </p>

March 13, 2019

By Order of the Board of Directors.

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

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 23, 2019

The Company's Proxy Statement for the 2019 Annual Meeting of Shareholders and the Annual Report to Shareholders for the fiscal year ended December 31, 2018 are available at
<http://www.churchilldownsincorporated.com/proxy>

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LOUISVILLE, KENTUCKY 40222

PROXY STATEMENT

Annual Meeting of Shareholders to be held on April 23, 2019

The Board of Directors (the “Board of Directors” or “Board”) of Churchill Downs Incorporated (“Company,” “CDI,” or “CHDN”) is soliciting proxies to be voted at the 2019 Annual Meeting of Shareholders to be held on Tuesday, April 23, 2019, at 9:00 a.m. Central Time (the “Annual Meeting”), at the **Four Seasons Hotel, 120 E. Delaware Place, Chicago, Illinois 60611**, and any adjournments thereof. Certain officers and directors of the Company and persons acting under their instruction may also solicit proxies on behalf of the Board of Directors by means of telephone calls, personal interviews and mail at no additional expense to the Company. The Notice of Internet Availability of Proxy Materials (the “Notice”) was first mailed on or about March 13, 2019.

Recent Stock Split

On January 25, 2019, the Company effected a three-for-one stock split of the Company’s outstanding shares of Common Stock, and our Common Stock began trading on a split-adjusted basis on January 28, 2019 (the “Stock Split”). All share and per-share information presented in this Proxy Statement has been adjusted to reflect the Stock Split.

Voting Rights

Only holders of record of the Company’s Common Stock, no par value (“Common Stock”), on March 1, 2019 (the “Record Date”), are entitled to notice of and to vote at the Annual Meeting. On that date, **40,321,795** shares of Common Stock were outstanding and entitled to vote. Each shareholder has one vote per share on all matters coming before the Annual Meeting. The shareholders of the Company do not have cumulative voting rights in the election of directors. Abstentions or “withhold” votes, as applicable, and broker non-votes are not counted in determining the number of votes required for the election of a director or passage of any matter submitted to the shareholders. Abstentions or “withhold” votes and broker non-votes are counted for purposes of determining whether a quorum exists. For more information regarding broker non-votes, see “*What is a broker non-vote?*” below.

Whether or not you plan to attend the Annual Meeting in person, to ensure the presence of a quorum, please vote over the Internet or by telephone as instructed in these materials as promptly as possible. If a shareholder executes and returns a proxy card, but does not specify otherwise, the shares represented by the shareholder’s proxy will be voted: (i) for the election of each of the two director nominees listed below under “Election of Directors”; (ii) for the ratification of the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2019; (iii) for the advisory approval of the compensation of the Company’s named executive officers as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission (the “SEC”); and (iv) in the discretion of the person or persons voting the proxies, on such other business as may properly come before the Annual Meeting or any adjournments thereof.

Voting Instructions and Information

When and where is our Annual Meeting?

We will hold our Annual Meeting on Tuesday, April 23, 2019 at 9:00 a.m., Central Time, at the Four Seasons Hotel, located at 120 E. Delaware Place, Chicago, Illinois 60611.

How are we distributing our proxy materials?

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

On March 13, 2019, we began mailing a Notice to our shareholders containing instructions on how to access this Proxy Statement and our 2018 Annual Report on Form 10-K and vote online, as well as instructions on how to receive paper copies of these documents for shareholders who so select. This Proxy Statement and the 2018 Annual Report on Form 10-K are also available at <http://www.churchilldownsincorporated.com/proxy>.

Who can vote at the Annual Meeting?

You are entitled to vote or direct the voting of your shares of CHDN Common Stock if you were a shareholder of record or if you held CHDN Common Stock in “street name” at the close of business on the Record Date (Friday, March 1, 2019). On that date, 40,321,795 shares of CHDN Common Stock were outstanding. Each share of CHDN Common Stock held by you on the Record Date is entitled to one vote.

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

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

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

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

What proposals will be voted on at the Annual Meeting?

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

1. To elect the two (2) Class II Directors identified in this Proxy Statement for a term of three (3) years (Proposal No. 1);
2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2019 (Proposal No. 2); and
3. To conduct an advisory vote to approve the executive compensation of the Company’s named executive officers as disclosed in this Proxy Statement (Proposal No. 3).

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

How does the Board of Directors recommend I vote?

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

1. **"FOR"** each of the two (2) director nominees identified in this Proxy Statement under "Election of Directors" to the Board of Directors.
2. **"FOR"** the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2019.
3. **"FOR"** the proposal to approve, on a non-binding advisory basis, the executive compensation of the Company's named executive officers as disclosed in this Proxy Statement.

How do I vote?

You may cast your vote in one of four ways:

- **By Submitting a Proxy by Internet.** Go to the following website: www.proxypush.com/chdn. You may submit a proxy by Internet 24 hours a day. To be valid, your proxy by Internet must be received by 11:59 p.m., Eastern Daylight Saving Time, on April 22, 2019. When you access the website, follow the instructions to create an electronic voting instruction form.
- **By Submitting a Proxy by Telephone.** To submit a proxy using the telephone, call 1-866-284-6863 any time on a touch-tone telephone. There is NO CHARGE to you for the call in the United States or Canada. International calling charges apply outside the United States and Canada. You may submit a proxy by telephone 24 hours a day, 7 days a week. Follow the simple prompts and instructions provided by the recorded message. To be valid, your proxy by telephone must be received by 11:59 p.m. Eastern Daylight Saving Time, on April 22, 2019.
- **By Submitting a Proxy by Mail.** If you have requested and received a proxy card by mail, mark your proxy card, sign and date it, and return it in the prepaid envelope that was provided or return it to: Proxy Tabulator for Churchill Downs Incorporated, P.O. Box 8016, Cary, North Carolina 27512-9903. To be valid, your proxy by mail must be received by 11:59 p.m., Eastern Daylight Saving Time, on April 22, 2019.
- **At the Annual Meeting.** You can vote your shares in person at the Annual Meeting (see "What do I need to attend, and vote at, the Annual Meeting?"). If you are a shareholder of record, in order to vote at the Annual Meeting, you must present an acceptable form of photo identification, such as a driver's license. If you hold your shares in street name, you must obtain a legal proxy, as described above under "What do I need to attend, and vote at, the Annual Meeting?", and bring that proxy to the Annual Meeting.

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

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

For a Proxy Submitted by Internet or Telephone

- Submitting in a timely manner a new proxy through the Internet or by telephone that is received by 11:59 p.m., Eastern Daylight Saving Time, on April 22, 2019;
- Requesting, executing and mailing a later-dated proxy card that is received prior to 11:59 p.m., Eastern Daylight Saving Time, on April 22, 2019; or
- Voting in person at the Annual Meeting.

For a Proxy Submitted by Mail

- Executing and mailing another proxy card bearing a later date that is received prior to 11:59 p.m., Eastern Daylight Saving Time, on April 22, 2019;
- Giving written notice of revocation to CDI's Secretary at 600 N. Hurstbourne Parkway, Ste. 400, Louisville, Kentucky 40222 that is received by CDI prior to 11:59 p.m., Eastern Daylight Saving Time, on April 22, 2019; or
- Voting in person at the Annual Meeting.

What is a broker non-vote?

Brokers, banks or other nominees holding shares on behalf of a beneficial owner may vote those shares in their discretion on certain “routine” matters even if they do not receive timely voting instructions from the beneficial owner. With respect to “non-routine” matters, the broker, bank or other nominee is not permitted to vote shares for a beneficial owner without timely received voting instructions. The only routine matter to be presented at the Annual Meeting is the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2019. The remaining proposals to be presented at the Annual Meeting are considered non-routine.

A broker non-vote occurs when a broker, bank or other nominee does not vote on a non-routine matter because the beneficial owner of such shares has not provided voting instructions with regard to such matter. If a broker, bank or other nominee exercise their discretionary voting authority on the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2019, such shares will be considered present at the Annual Meeting for quorum purposes and broker non-votes will occur as to each of the other proposals presented at the Annual Meeting. Broker non-votes will have no impact on the voting results of the election of directors or the proposal to approve, on a non-binding advisory basis, the executive compensation of the Company’s named executive officers as disclosed in this Proxy Statement.

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

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

1. **“FOR”** each of the two (2) director nominees identified in this Proxy Statement under “Election of Directors” to the Board of Directors.
2. **“FOR”** the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2019.
3. **“FOR”** the proposal to approve, on a non-binding advisory basis, the executive compensation of the Company’s named executive officers as disclosed in this Proxy Statement.

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

- will be counted as present for purposes of establishing a quorum;
- will be voted in accordance with the broker’s, bank’s or other nominee’s discretion on “routine” matters, which includes only the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company’s independent registered public accounting firm for fiscal year 2019;
- will not be counted in connection with the election of directors, the proposal to approve, on a non-binding advisory basis, the executive compensation of the Company’s named executive officers as disclosed in this Proxy Statement, or any other non-routine matters that are properly presented at the Annual Meeting. For each of these proposals, your shares will be treated as “broker non-votes.”

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

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information as of the Record Date (except as otherwise indicated below) regarding the beneficial ownership of the Common Stock by the only persons known by the Company to beneficially own more than five percent (5%) of the Common Stock, each director and director nominee of the Company, each named executive officer (as defined in “Executive Compensation—2018 Summary Compensation Table” herein), and the Company’s directors and executive officers as a group. Except as otherwise indicated, the persons named in the table have sole voting and investment power with respect to all of the shares of Common Stock shown as beneficially owned by them. The percentage of beneficial ownership is calculated based on **40,321,795** shares of Common Stock outstanding as of the Record Date. We are not aware of any pledge of our Common Stock or any other arrangements the operation of which may at a subsequent date result in a change in control of our Company.

Name of Beneficial Owner ⁽¹⁸⁾	Amount and Nature Of Beneficial Ownership ⁽¹⁾	Percent of Class
BlackRock, Inc. and affiliates 55 East 52nd Street New York, NY 10055	4,037,418 ⁽²⁾	10.01
The Vanguard Group, Inc. and affiliates 100 Vanguard Blvd. Malvern, PA 19355	3,317,058 ⁽³⁾	8.23
CDI Holdings LLC 845 Larch Avenue Elmhurst, IL 60126	3,000,000 ⁽⁴⁾	7.44
PAR Capital Management, Inc. and affiliates 200 Clarendon Street, 48 th Floor Boston, MA 02116	2,042,898 ⁽⁵⁾	5.07
Ulysses L. Bridgeman, Jr.	17,354 ⁽⁶⁾	*
Richard L. Duchossois	3,616,442 ⁽⁷⁾	8.97
Robert L. Fealy	51,786 ⁽⁸⁾	0.13
Douglas C. Grissom	2,997 ⁽⁹⁾	*
Daniel P. Harrington	644,651 ⁽¹⁰⁾	1.60
Karole F. Lloyd	7,475 ⁽¹¹⁾	*
R. Alex Rankin	36,831 ⁽¹²⁾	*
William C. Carstanjen	517,097 ⁽¹³⁾	1.28
William E. Mudd	291,164 ⁽¹⁴⁾	0.72
Marcia A. Dall	35,024 ⁽¹⁵⁾	*
Austin W. Miller	46,394 ⁽¹⁶⁾	0.12
11 Directors and Executive Officers as a Group[†]	5,267,215 ⁽¹⁷⁾	13.05

* Less than 0.1%.

† Does not include Paul J. Thelen, as a former employee.

- (1) All share and per-share information presented herein has been adjusted to reflect the Stock Split, including shares reported on Schedule 13G as of December 31, 2018 by the applicable beneficial holders.
- (2) Based on a Schedule 13G/A filed with the SEC on February 4, 2019, reporting the beneficial ownership of BlackRock, Inc. and its subsidiaries specified therein (“BlackRock”) as of December 31, 2018. As reported in such filing, BlackRock has sole voting power over 3,957,915 shares, sole dispositive power over 4,037,418 shares and no shared voting or dispositive power over any shares.
- (3) Based on a Schedule 13G/A filed with the SEC on February 11, 2019, reporting the beneficial ownership of The Vanguard Group and its subsidiaries specified therein (“Vanguard”) as of December 31, 2018. As reported in such filing, Vanguard has sole voting power over 73,584 shares, sole dispositive power over 3,242,196 shares, shared voting power over 5,106 shares and shared dispositive power over 74,862 shares.

- (4) CDI Holdings LLC (“CDI Holdings”) is a wholly-owned subsidiary of The Duchossois Group, Inc. These shares are also beneficially owned by Mr. Richard L. Duchossois. CDI Holdings has sole voting and dispositive power over all 3,000,000 shares.
- (5) Based on a Schedule 13G/A filed with the SEC on February 14, 2019, reporting the beneficial ownership of PAR Capital Management, Inc. and its affiliates identified therein as of December 31, 2018. As described in the Schedule 13G/A, the sole general partner of PAR Investment Partners, L.P. is PAR Group II, L.P. The sole general partner of PAR Group II, L.P. is PAR Capital Management, Inc. Each of PAR Group II, L.P. and PAR Capital Management, Inc. may be deemed to be the beneficial owner of all shares held directly by PAR Investment Partners, L.P., which has sole voting and dispositive power over 2,042,898 shares, without any shared voting or dispositive power over any shares.
- (6) Includes 4,871 deferred stock units, which Mr. Bridgeman has elected to defer pursuant to the Company’s deferred compensation plan. Also includes 12,483 restricted shares, over which Mr. Bridgeman has neither voting nor dispositive power until immediately following his resignation or retirement from the Board, awarded by the Company for his board service.
- (7) Mr. Richard L. Duchossois shares voting and investment power with respect to 3,000,000 shares owned by CDI Holdings, a wholly-owned subsidiary of The Duchossois Group, Inc., and 10,119 shares owned by The Chamberlain Group, Inc. Mr. Duchossois also shares voting and investment power with respect to 580,500 shares owned by the RLD Revocable Trust. Figure illustrated also includes 7,892 deferred stock units, which Mr. Duchossois has elected to defer pursuant to the Company’s deferred compensation plan. Also includes 17,931 restricted shares, over which Mr. Duchossois has neither voting nor dispositive power until his resignation or retirement from the Board, awarded by the Company for his board service.
- (8) Includes 33,855 deferred stock units, which Mr. Fealy has elected to defer pursuant to the Company’s deferred compensation plan. Also includes 17,931 restricted shares, over which Mr. Fealy has neither voting nor dispositive power until immediately following his resignation or retirement from the Board, awarded by the Company for his board service.
- (9) Includes 1,523 deferred stock units, which Mr. Grissom has elected to defer pursuant to the Company’s deferred compensation plan. Also includes 1,475 restricted shares, over which Mr. Grissom has neither voting nor dispositive power until immediately following his resignation or retirement from the Board.
- (10) Mr. Harrington shares voting and investment power with respect to 594,900 shares held by TVI Corp. He specifically disclaims beneficial ownership of these shares. Figure illustrated includes 31,820 deferred stock units, which Mr. Harrington has elected to defer pursuant to the Company’s deferred compensation plan. Also includes 17,931 restricted shares, over which Mr. Harrington has neither voting nor dispositive power until immediately following his resignation or retirement from the Board, awarded by the Company for his board service. Figure illustrated does not include 97,602 shares held by the Veale Foundation. Mr. Harrington is a member of the Board of Trustees of the Veale Foundation, but Mr. Harrington disclaims beneficial ownership of those shares.
- (11) Includes 1,475 restricted shares, over which Ms. Lloyd has neither voting nor dispositive power until immediately following her resignation or retirement from the Board.
- (12) Includes 17,931 restricted shares, over which Mr. Rankin has neither voting nor dispositive power until immediately following his resignation or retirement from the Board, awarded by the Company for his board service.
- (13) Excludes 110,250 restricted stock units, tied to Mr. Carstanjen’s continued service to the Company, awarded under the Company’s 2016 Omnibus Stock Incentive Plan over which Mr. Carstanjen has neither voting nor dispositive power until December 31, 2019, at which time 32,039 units shall vest without restriction; December 31, 2020, at which time 19,142 units shall vest without restriction; December 31, 2021, at which time 10,358 units shall vest without restriction; October 30, 2022, at which time 12,177 units shall vest without restriction; October 30, 2023, at which time 12,177 units shall vest without restriction; October 30, 2024, at which time 12,177 units shall vest without restriction; and October 30, 2025, at which time the remaining 12,180 units shall vest without restriction. Excludes 194,124 performance stock units (“PSUs”) awarded under the Company’s executive long term incentive compensation plan over which Mr. Carstanjen has neither voting nor dispositive power until December 31, 2019, at which time the performance period ends with regard to 38,685 PSUs; December 31, 2020, at which time the performance period ends with regard to 27,852 PSUs, and October 30, 2021, at which time the performance period ends with regard to the remaining 127,587 PSUs, which shall thereafter vest based upon Mr. Carstanjen’s continued service to the Company according to the following schedule: 31,897 units on October 30th of each of 2022, 2023, and 2024, respectively, and 31,896 units on October 30, 2025. Further excludes all PSUs to be awarded to Mr. Carstanjen under the Company’s executive long term incentive compensation plan for the performance period of January 1, 2019 through December 31, 2021.
- (14) Excludes 55,968 restricted stock units, tied to Mr. Mudd’s continued service to the Company, awarded under the Company’s 2016 Omnibus Stock Incentive Plan over which Mr. Mudd has neither voting nor dispositive power until December 31, 2019, at which time 13,308 units shall vest without restriction; December 31, 2020, at which time 7,827 units shall vest without restriction; December 31, 2021, at which time 4,389 units shall vest without restriction; October 30, 2022, at which time 7,611 units shall vest without restriction; October 30, 2023, at which time 7,611 units shall vest without restriction; October 30, 2024, at which time 7,611 units shall vest without restriction; and October 30, 2025, at which time the remaining 7,611 units shall vest without restriction. Excludes 107,085 PSUs awarded under the Company’s executive long term incentive compensation plan over which Mr. Mudd has neither voting nor dispositive power until December 31, 2019, at which time the performance period ends with regard to 16,443 PSUs; December 31, 2020, at which time the performance period ends with regard to 10,899 PSUs, and October 30,

2021, at which time the performance period ends with regard to the remaining 79,743 PSUs, which shall thereafter vest based upon Mr. Mudd's continued service to the Company according to the following schedule: 19,936 units on October 30th of each of 2022, 2023, and 2024, respectively; and 19,935 units on October 30, 2025. Further excludes all PSUs to be awarded to Mr. Mudd under the Company's executive long term incentive compensation plan for the performance period of January 1, 2019 through December 31, 2021.

- (15) Excludes 13,389 restricted stock units, tied to Ms. Dall's continued service to the Company, awarded under the Company's 2016 Omnibus Stock Incentive Plan over which Ms. Dall has neither voting nor dispositive power until December 31, 2019, at which time 7,422 units shall vest without restriction; December 31, 2020, at which time 4,035 units shall vest without restriction; and December 31, 2021, at which time the remaining 1,932 units shall vest without restriction. Excludes 16,815 PSUs awarded under the Company's executive long term incentive compensation plan over which Ms. Dall has neither voting nor dispositive power until December 31, 2019, at which time the performance period ends with regard to 10,155 PSUs; and December 31, 2020, at which time the performance period ends with regard to the remaining 6,660 PSUs. Further excludes all PSUs to be awarded to Ms. Dall under the Company's executive long term incentive compensation plan for the performance period of January 1, 2019 through December 31, 2021.
- (16) Excludes 6,420 restricted shares, tied to Mr. Miller's continued service to the Company, awarded under the Company's 2007 Omnibus Stock Incentive Plan and 2016 Omnibus Stock Incentive Plan, over which Mr. Miller has neither voting nor dispositive power until December 31, 2019, at which time 3,357 shares shall vest without restriction; and February 17, 2020, at which time the remaining 3,063 shares shall vest without restriction. Excludes 8,634 restricted stock units, tied to Mr. Miller's continued service, awarded under the Company's 2016 Omnibus Stock Incentive Plan over which Mr. Miller has neither voting nor dispositive power until December 31, 2019, at which time 3,483 units shall vest without restriction; December 31, 2020, at which time 3,483 units shall vest without restriction; and December 31, 2021, at which time the remaining 1,668 units shall vest without restriction. Excludes 3,633 PSUs awarded under the Company's executive long term incentive compensation plan over which Mr. Miller has neither voting nor dispositive power until December 31, 2020, at which time the performance period ends with regard to all 3,633 PSUs. Further excludes all PSUs to be awarded to Mr. Miller under the Company's executive long term incentive compensation plan for the performance period of January 1, 2019 through December 31, 2021.
- (17) See table on page 14 and "Executive Officers of the Company".
- (18) Does not include ownership by Paul J. Thelen as he has not been employed by the Company since January 9, 2018, and the Company does not have access to information regarding his ownership.

Executive Officers of the Company

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

Name and Age	Position(s) With Company and Term of Office
William C. Carstanjen⁽¹⁾ Age: 51	Chief Executive Officer since August 2014; President and Chief Operating Officer from March 2011 to August 2014; Chief Operating Officer from January 2009 to March 2011; Executive Vice President and Chief Development Officer from June 2005 to January 2009; General Counsel from June 2005 to December 2006
William E. Mudd⁽²⁾ Age: 47	President and Chief Operating Officer since October 2015; President and Chief Financial Officer from August 2014 to October 2015; Executive Vice President and Chief Financial Officer from October 2007 to August 2014
Marcia A. Dall⁽³⁾ Age: 55	Executive Vice President and Chief Financial Officer since October 2015
Austin W. Miller⁽⁴⁾ Age: 55	Senior Vice President of Gaming Operations since August 2013; President of Calder Casino & Race Course from June 2010 to August 2013; President of Fair Grounds Race Course & Slots from October 2008 to June 2010; Vice President and General Manager of Fair Grounds Race Course & Slots from May 2007 to October 2008

- (1) Prior to joining the Company, Mr. Carstanjen was employed at General Electric Company ("GE"). From 2004 through June 2005, he served as the Managing Director and General Counsel of GE Commercial Finance, Energy Financial Services. From 2002 to 2004, he served as General Counsel of GE Specialty Materials and, from 2000 to 2002, he served as Transactions and Finance Counsel of GE Worldwide Headquarters. Carstanjen began his career as an attorney with Cravath, Swaine & Moore LLP in New York City, specializing in mergers and acquisitions and other corporate transactions.
- (2) Prior to joining the Company, Mr. Mudd was employed at GE. From 2006 through October 2007, he served as Chief Financial Officer, Global Commercial & Americas P&L of GE Infrastructure, Water & Process Technologies. From 2004 to 2006, he served as Chief Financial Officer, Supply Chain, Information Technology and Technology Finance, GE Consumer & Industrial Europe, Middle East, & Africa, Budapest and Hungary and, from 2002 to 2004, he served as Manager, Global Financial Planning & Analysis and Business Development at GE FANUC in Charlottesville, Virginia.
- (3) Prior to joining the Company, Ms. Dall was employed at Erie Indemnity Company, a company providing sales, underwriting and administrative services to Erie Insurance Exchange, where from March 2009 through October 2015, she served as Executive Vice President and Chief Financial Officer. From January 2008 until March 2009, she served as Chief Financial Officer of the Healthcare division at CIGNA Corporation. Prior to CIGNA, Ms. Dall was a corporate officer and the Chief Financial Officer for the International and U.S. Mortgage Insurance segments of Genworth Financial, a former subsidiary of GE. Ms. Dall began her career in 1985 in the Financial Management Program at GE and held various leadership roles both in finance and operations over her twenty-plus year tenure with GE. Ms. Dall is a Certified Public Accountant.
- (4) Prior to joining the Company, Mr. Miller was employed by Harrah's Entertainment, Caesars Entertainment, and Grand Casinos from 1992 to 2007. From 2005 to 2007, he served as the Vice President of Gaming Operations for Harrah's New Orleans. From 2001 to 2005, he served in a number of senior executive roles including Senior Vice President of Operations for Grand Casino Gulfport. From 2000 to 2001, he served as the Vice President of Guest Services for Grand Casino Tunica. From 1996 to 2000, he served as the Director of Guest Services for Grand Casino Biloxi. From 1995 to 1996, he served as the Regional Director of the Grand Advantage Player's Club for Grand Casino Gulfport & Grand Casino Biloxi. From 1992 to 1995, he served as Corporate Marketing Representative and Director of Business Relations for Grand Casinos Incorporated. Miller began his gaming career in 1983.

ELECTION OF DIRECTORS (Proposal No. 1)

At the Annual Meeting, shareholders will vote to elect the two (2) persons identified below to serve in Class II of the Board of Directors and to hold office for a term of three (3) years expiring at the 2022 annual meeting of shareholders and thereafter until their respective successors shall be duly elected and qualified or until the earlier of their resignation, death or removal.

The Amended and Restated Bylaws of the Company provide that the Board of Directors shall be composed of not fewer than three (3) nor more than fifteen (15) members, the exact number to be established by the Board of Directors, and further provide for the division of the Board of Directors into three (3) approximately equal classes, of which one (1) class is elected annually to a three (3) year term. Currently the Board of Directors is comprised of eight (8) directors, with two (2) directors in Class I, three (3) directors in Class II and three (3) directors in Class III. The Board of Directors has established the size of the Board to be composed of seven (7) members, effective immediately following the Annual Meeting.

Mr. Richard L. Duchossois, currently a Class II director, will not be standing for re-election at the Annual Meeting.

The Nominating and Governance Committee has recommended, and the Board has approved, the nomination of the two (2) persons named in the following table for election as directors in Class II. The nominees currently serve as members of Class II and have agreed to serve if re-elected.

Directors are elected by a plurality of votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. With each shareholder having one vote per share to cast for each director position, the nominees receiving the greatest number of votes will be elected. The biographical information for our directors and director nominees below includes information regarding certain of the experiences, qualifications, attributes and skills that led to the determination that such individuals are qualified to serve on the Board of Directors.



The Board of Directors recommends a vote “FOR” the election of the directors in Class II named below.

Election of Directors

The following table sets forth information relating to the Class II director nominees of the Company who are proposed to the shareholders for election to serve as directors for terms of three (3) years, expiring at the 2022 annual meeting of shareholders, and thereafter until their respective successors shall be duly elected and qualified or until the earlier of their resignation, death or removal.

Class II—Nominated for Terms Expiring in 2022

Ulysses L. Bridgeman, Jr.

Age: 65
Director since 2012

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

R. Alex Rankin

Age: 63
Director since 2008

Mr. Rankin is the Chairman of the Board of Sterling G. Thompson Company, LLC (a private insurance agency and broker), and the President of Upton Downs Farm, Inc. (a thoroughbred breeding and racing operation). He is also a Director of Glenview Trust Company and a member of The Jockey Club. Mr. Rankin is a Trustee and former Chairman of the James Graham Brown Foundation (a private, non-profit foundation that fosters the well-being, quality of life, and image of Louisville and Kentucky by actively supporting and funding projects in the fields of civic affairs, economic development, education, and health and general welfare, which since 1954 has awarded over 2,680 grants totaling over \$450 million). Among other exceptional personal and professional attributes, Mr. Rankin’s expertise in the areas of finance and risk management, as well as his experience in the business of thoroughbred horseracing, qualify Mr. Rankin as a member of the Board of Directors and the Audit Committee.

- (1) Except as noted with respect to Mr. Bridgeman, there has been no change in principal occupation or employment during the past five years.
- (2) Summaries above include directorships at any time within the last 5 years in companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), subject to the requirements of Section 15(d) of the Exchange Act or companies registered under the Investment Company Act of 1940 and, in the case of certain nominees, other present or former directorships or positions considered significant by them.

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

Continuing Directors

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

Class III—Terms Expiring in 2020

Robert L. Fealy
Age: 67
Director since 2000

Mr. Fealy currently serves as Managing Director of Limerick Investments, LLC, an investment firm. He retired effective June 30, 2014 as President, Chief Operating Officer and Director of The Duchossois Group, Inc. (a family owned company which held diversified business interests in companies with leading brands in the residential security, lighting and convenience products markets and the commercial control, automation and digital media markets). While Mr. Fealy was originally nominated to serve as a director of the Company pursuant to the stockholder's agreement between the Company and Duchossois Industries, Inc., the Company has been and will continue to be well served by Mr. Fealy's experience as a certified public accountant and senior executive with oversight of a diverse group of companies that had over 5,000 employees worldwide with operations located in over 30 countries as well as proven capabilities in strategic business planning in a variety of industries. Mr. Fealy currently holds the following leadership positions with other entities: Board Director, Panduit, Inc.; Board Director, Outcome Holdings, LLC and affiliates; Past Chairman and Founding Board Member, Illinois Venture Capital Association; Director and Chair, Illinois Venture Capital Association PAC; Entrepreneur Partner and Advisor, Chicago Ventures; Vice-Chairman and Past Chairman of the Board of Trustees, University of Cincinnati Foundation; Member, University of Cincinnati Business Advisory Council; Board Member and past Chairman, Chicago Children's Choir; Trustee of The Morton Arboretum; Partner, Social Venture Partners; Executive Chairman, Uprising Technology, Inc.; Co-Founder and President, Aluminate, Inc.

Douglas C. Grissom
Age: 51
Director since 2017

Mr. Grissom serves as the Managing Director and Co-Head of Madison Dearborn Partners' ("MDP") Business & Government Software and Services team. Prior to joining MDP, a Chicago-based private equity firm focused on buyout and growth equity investments, he was with Bain Capital in private equity, McKinsey & Company and Goldman Sachs. Mr. Grissom currently serves on the Boards of Directors of BlueCat Networks, CoVant Technologies II, Fleet Complete, LGS Innovations, and LinQuest Corporation. In addition, he was formerly on the Boards of Directors of @stake, Aderant, Asurion, Cbeyond, Fieldglass, Great Lakes Dredge and Dock Corporation, Intelsat, and Neoworld. Outside of MDP, he is a Board Member at Amherst College, the Harvard Business School Fund Council, the Lincoln Park Zoo, METROsquash, the Museum of Science and Industry, and the University of Chicago Laboratory Schools.

Daniel P. Harrington
Age: 63
Director since 1998

Mr. Harrington serves as the President and Chief Executive Officer of HTV Industries, Inc. (a private holding company with diversified business interests that include manufacturing, distribution, technology and banking). Among other exceptional personal and professional attributes, Mr. Harrington has extensive financial, accounting and chief executive experience within a variety of industries that qualifies Mr. Harrington as a member of the Board of Directors. In addition, Mr. Harrington qualifies as an Audit Committee Financial Expert, which makes him well suited for his current role as the Chairman of the Company's Audit Committee. Mr. Harrington also serves as a Trustee of The Veale Foundation. In addition, Mr. Harrington has served as a Director of First Guaranty Bank, First State Financial Corporation, and Portec Rail Products, Inc. (serving on its Audit and Compensation Committees).

- (1) There has been no change in principal occupation or employment during the past five years except with respect to Mr. Fealy.
- (2) Summaries above include directorships at any time within the last 5 years in companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), subject to the requirements of Section 15(d) of the Exchange Act or companies registered under the Investment Company Act of 1940 and, in the case of certain directors, other directorships or positions considered significant by them.

Class I—Terms Expiring in 2021

William C. Carstanjen

Age: 51
Director since 2015

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

Karole F. Lloyd

Age: 60
Director since 2018

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

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

Retirement Age Policy

The Company has a mandatory retirement age policy in the Corporate Governance Guidelines with regard to directors, which provides that a person is not qualified to serve as a director unless he or she is less than seventy (70) years of age on the date of election. The Board believes that it is important to monitor overall Board performance and suitability, and pursuant to the policy, upon the recommendation of the Nominating and Governance Committee, the Board may waive the effective date of mandatory retirement. No director nominees in Class II will have met the mandatory retirement age as of the date of the Annual Meeting.

Emeritus Directors

Pursuant to our Bylaws, each director shall become a "Director Emeritus" upon the expiration of his or her current term following the date the director may no longer be qualified for election as a director due to age pursuant to our retirement age policy, provided the effective date of such mandatory retirement has not been waived. Emeritus Directors are available for counsel, but do not attend meetings of the Board of Directors and do not vote on matters presented to the Board. The Emeriti Directors are Charles W. Bidwill, Jr., Catesby W. Clay, Craig J. Duchossois, J. David Grissom, G. Watts Humphrey, Jr., James F. McDonald, Thomas H. Meeker, Carl F. Pollard, and Darrell R. Wells.

Director Compensation for Fiscal Year Ended December 31, 2018

During 2018, each non-employee director of the Board of Directors received the compensation set forth below (all fees shown are annual fees, except for meeting fees), which, other than the implementation of a Chairman fee for the non-employee Chairman of the Board of Directors, did not change from the compensation levels set for 2017.

	Retainer Fee (\$) ⁽¹⁾	Meeting Fees (\$) ⁽²⁾	Stock Awards (\$) ⁽³⁾	Chairman Fee (\$)	Non-Chairman Fee (\$)
Board of Directors	60,000	2,000	125,000	150,000 ⁽⁴⁾	
Compensation Committee		2,000		25,000	12,500
Nominating and Governance Committee		2,000		20,000	10,000
Audit Committee		2,000		35,000	15,000

- (1) Retainer fee is paid in arrears, in equal quarterly installments. For the 2019 fiscal year, the retainer fee will be increased to \$75,000.
- (2) Directors who do not reside in Louisville may request reimbursement for travel expenses to and from Board and committee meetings.
- (3) Each non-employee director receives a grant of restricted share units (“RSUs”), with an aggregate grant date fair value of \$125,000. For the 2019 fiscal year, the grant date fair value of the RSU awards will be increased to \$155,000.
- (4) For the non-employee Chairman of the Board of Directors.

In 2018, we provided the following compensation to our non-employee directors. Mr. Carstanjen, our Chief Executive Officer (“CEO”), is not separately compensated for his service on our Board. Please see the 2018 Summary Compensation Table for a summary of the compensation paid to our CEO with respect to 2018.

Name	Fees earned or paid in cash (\$)	Stock Awards (\$) ⁽²⁾	Total (\$)
Ulysses L. Bridgeman, Jr.	103,000 ⁽¹⁾	125,000	228,000
Craig J. Duchossois ⁽³⁾	35,685 ⁽¹⁾	-0-	35,685
Richard L. Duchossois	80,000 ⁽¹⁾	125,000	205,000
Robert L. Evans ⁽³⁾	26,912	-0-	26,912
Robert L. Fealy	109,375 ⁽¹⁾	125,000	234,375
Douglas C. Grissom	94,875 ⁽¹⁾	125,000	219,875
Daniel P. Harrington	141,500 ⁽¹⁾	125,000	266,500
G. Watts Humphrey, Jr ⁽³⁾	41,593	-0-	41,593
Karole F. Lloyd ⁽⁴⁾	59,511	125,000	184,511
R. Alex Rankin	249,022	125,000	374,022

- (1) The Churchill Downs Incorporated 2005 Deferred Compensation Plan allows directors to defer receipt of all or part of their retainer and meeting fees in a deferred share account until after their service on the Board has ended. This account allows the director, in effect, to invest his or her deferred cash compensation in Company Common Stock. Funds in this account are credited as hypothetical shares of Common Stock based on the market price of the stock at the time the compensation would otherwise have been earned. Hypothetical dividends are reinvested in additional shares based on the market price of the stock on the date dividends are paid. All shares in the deferred share accounts are hypothetical and are not issued or transferred until the director ends his or her service on the Board. Upon the end of Board service, the shares are issued or transferred to the director. In 2018, Mr. Fealy, Mr. Grissom, and Mr. Harrington deferred all of their 2018 directors’ fees into a deferred share account under the plan, while Mr. Bridgeman deferred 50% of his 2018 directors’ fees into a deferred share account under the plan. As adjusted for the Stock Split, as of December 31, 2018, Mr. Bridgeman had 4,838 deferred shares, Mr. Richard Duchossois had 7,839 deferred shares, Mr. Fealy had 33,628 deferred shares, Mr. Grissom had 1,512 deferred shares, and Mr. Harrington had 31,607 deferred shares under the plan.

- (2) On April 24, 2018, each non-employee director (with the exceptions of Mr. Craig Duchossois, Mr. Evans and Mr. Humphrey, who did not stand for re-election as members of the Board of Directors at the 2018 annual meeting of shareholders) received a grant of RSUs, valued in the amount of \$125,000, calculated based upon the closing price of a share of Common Stock on the date of grant. The RSUs vest one year from the date of grant, subject to the director's continued service through the vesting date. At the time a director ceases being a director of the Company, the Company will issue one share of Common Stock for each vested RSU held by such director. As adjusted for the Stock Split, as of December 31, 2018, Mr. Bridgeman had 12,399 RSUs, Mr. Richard Duchossois had 17,810 RSUs, Mr. Fealy had 17,810 RSUs, Mr. Grissom had 1,465 RSUs, Mr. Harrington had 17,810 RSUs, Ms. Lloyd had 1,465 RSUs, and Mr. Rankin had 17,810 RSUs.
- (3) Mr. Craig J. Duchossois, Mr. Evans, and Mr. Humphrey did not stand for re-election as members of the Board of Directors on April 24, 2018.
- (4) Ms. Lloyd joined the Board in April 2018.

Share Ownership Guidelines

As memorialized in the Corporate Governance Guidelines, the Board expects all directors to display confidence in the Company by ownership and retention of a meaningful amount of the Company's Common Stock. Pursuant to the Company's insider trading policy, all directors are subject to the Company's anti-hedging policy, which prohibits hedging and monetization transactions with respect to the Company's Common Stock. As a result, each director is expected to own shares with a fair market value equal to five (5) times the director's annual retainer. Each director appointed or elected to the Board has five (5) years from the date of appointment or election to the Board to meet this requirement. Compliance is measured at the five (5) year anniversary date of the director's appointment or election. Each director's continuing compliance with the ownership guidelines will be measured in the year he or she stands for re-election and will be considered as one of the criteria for nomination by the Nominating and Governance Committee. The chart below shows each current director's compliance with the ownership guidelines calculated as of December 31, 2018, other than with respect to Mr. Carstanjen, who is subject to maintaining holdings of the Company's Common Stock equal to at least six (6) times his base annual salary, pursuant to the Key Executive Stock Ownership and Retention Guidelines, as further described in the "Executive Stock Ownership Guidelines" section below. Furthermore, deferred shares acquired by directors under the Churchill Downs Incorporated 2005 Deferred Compensation Plan and RSUs granted as director compensation are included for purposes of measuring compliance with the Company's share ownership guidelines. The share information in the following table has been adjusted to reflect the effect of the Stock Split.

Director	Ownership Guidelines ⁽¹⁾	Shares Owned ⁽²⁾	Value of Shares ⁽³⁾	Met Guidelines
Ulysses L. Bridgeman, Jr.	5x	17,237	\$ 1,401,572	✓
Richard L. Duchossois	5x	3,616,268	\$294,038,791	✓
Robert L. Fealy	5x	51,438	\$ 4,182,484	✓
Douglas C. Grissom	5x	2,977	\$ 242,074	*
Daniel P. Harrington	5x	644,317	\$ 52,389,444	✓
Karole F. Lloyd	5x	7,465	\$ 606,966	✓
R. Alex Rankin	5x	36,710	\$ 2,984,927	✓

✓ = Met guidelines.

* = Has not yet met guidelines, but has five years from the date of appointment to the Board to meet the guidelines.

- (1) Guidelines adopted per the Company's Board of Directors.
- (2) Calculated as of December 31, 2018 and represents shares of Common Stock owned outright, amounts deferred per the Company's 2005 Deferred Compensation Plan, and RSUs issued for board service.
- (3) Fair market value based on closing price of our Common Stock (as adjusted to reflect the Stock Split) of approximately \$81.31 as of December 31, 2018.

CORPORATE GOVERNANCE

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

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

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

Shareholder Communications

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

Board Leadership Structure

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

Oversight of Company Risk

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

Board Evaluations

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

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

Board Meetings and Committees

Four (4) meetings of the Board of Directors were held during the last fiscal year. During the fiscal year, all incumbent directors attended at least 75% of their Board and committee meetings for the period for which they served. The Company encourages its directors to attend the Annual Meeting each year. Each of the directors then serving on the Board (other than Messrs. Craig J. Duchossois, Robert L. Evans and G. Watts Humphrey, each of whom did not stand for re-election) attended the Company’s annual meeting on April 24, 2018.

The Board has determined that all of the directors of the Company who served during any part of the last completed fiscal year are “independent directors,” as defined under Nasdaq Rule 5605(a)(2), except William C. Carstanjen, due to his position as CEO of the Company.

As required by the Company’s Corporate Governance Guidelines, the Board of Directors currently has four (4) standing committees: the Executive, Audit, Compensation, and the Nominating and Governance Committees.

No Director Emeritus serves on any Board committee. The current composition of the committees is illustrated in the table below, along with the number of meetings held in 2018.

Director Name	Board of Directors	Executive Committee	Audit Committee ⁽¹⁾	Compensation Committee ⁽²⁾	Nominating and Governance Committee
Ulysses L. Bridgeman	Member		Member		Member
William C. Carstanjen	Member				
Richard L. Duchossois	Member				Member
Robert L. Fealy	Member	Member		Member	Chair
Douglas C. Grissom	Member			Member	Member
Daniel P. Harrington	Member	Member	Chair	Member	
Karole F. Lloyd	Member		Member		
R. Alex Rankin	Chair	Chair	★	Chair	★
Number of meetings in 2018	4	1	4	5	1

★ = Ex-officio Member

- (1) Effective at the conclusion of the Annual Meeting, Karole F. Lloyd will become Chairman of the Audit Committee, with Daniel P. Harrington continuing to serve as a member of the Audit Committee.
- (2) Effective at the conclusion of the Annual Meeting, Daniel P. Harrington will become Chairman of the Compensation Committee, with R. Alex Rankin serving as an ex-officio member of the Compensation Committee.

Executive Committee

The Executive Committee is authorized, subject to certain limitations set forth in the Company’s Amended and Restated Bylaws, to exercise the authority of the Board of Directors between Board meetings. The Executive Committee does not meet on a regular basis, but instead meets as and when needed.

Audit Committee

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

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

- To monitor the performance of the Company's internal audit function;
- To appoint, compensate, retain and oversee the independent registered public accounting firm employed by the Company for the purpose of preparing or issuing audit opinions on the Company's financial statements and its internal control over financial reporting;
- To monitor the Company's compliance with legal and regulatory requirements as well as the Company's Code of Conduct and compliance policies;
- To consider the effectiveness of the company's internal control system including information technology security and control.
- To inquire of management, including its internal auditor, and the Company's independent auditors regarding significant risks or exposures, including those related to fraudulent activities, facing the Company; to assess the steps management has taken or proposes to take to minimize such risks to the Company; and to periodically review compliance with such steps;
- In discharging its oversight role, to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and to retain outside counsel, auditors or other experts for this purpose; and
- To conduct an annual performance evaluation of the Audit Committee.

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

The Company's Board of Directors has determined that all members of the Company's Audit Committee are independent as defined under Nasdaq Rule 5605(a)(2) and Rule 10A-3(b)(1) under the Exchange Act.

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

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

Compensation Committee

Responsibilities of the Compensation Committee

The Compensation Committee of the Board of Directors operates under a written charter and is comprised entirely of directors meeting the independence requirements of Nasdaq and Rule 10C-1(b)(1) under the Exchange Act. The Board established the Compensation Committee to assist it in discharging the Board's responsibilities relating to compensation of the Company's CEO, each of the Company's other executive officers, and the Company's non-employee directors. The Compensation Committee has overall responsibility for decisions relating to all compensation plans, policies and perquisites as they affect the CEO and other executive officers and may form and delegate authority to subcommittees when it deems appropriate.

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

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

Compensation Committee Interlocks and Insider Participation

None of the directors who served on the Compensation Committee at any time during the last fiscal year were officers or employees of the Company or were former officers of the Company. None of the members who served on the Compensation Committee at any time during fiscal 2018 had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K. Finally, no executive officer of the Company serves, or in the past fiscal year has served, as a director or member of the compensation committee (or other board committee performing equivalent functions) of any entity that has one or more of its executive officers serving on the Board of Directors or the Compensation Committee.

Compensation Risk Assessment

The Compensation Committee performed an assessment of whether risks arising from the Company's compensation policies and practices for all employees during 2018, including non-executive officers, are reasonably likely to have a material adverse effect on the Company. Each policy and plan was evaluated based on certain elements of risk, including, but not limited to, (i) the mix of fixed and variable pay, (ii) types of performance metrics, (iii) performance goals and payout curves, (iv) payment timing and adjustments, (v) equity incentives, and (vi) stock ownership requirements and trading policies. Based on this evaluation, an assessment of each plan was created, along with an overall assessment of compensation risk to the Company. After evaluation and discussion, the Committee determined that the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company.

Nominating and Governance Committee

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

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

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

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

PROPOSAL TO RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2019 (Proposal No. 2)

On February 26, 2019, the Board of Directors, on recommendation from the Audit Committee, selected PricewaterhouseCoopers LLP ("PwC") to serve as the Company's independent registered public accounting firm for the year ending December 31, 2019. PwC has served as the Company's independent registered public accounting firm since the Company's 1990 fiscal year.

Although the Company's Amended and Restated Bylaws do not require that the Company's shareholders ratify the appointment of PwC as the Company's independent registered public accounting firm, the Board of Directors is submitting the appointment of PwC to the Company's shareholders for ratification as a matter of good corporate governance. This proposal will be approved if the votes cast favoring the action exceed the votes cast opposing the action. If the appointment is not ratified, the Company's Audit Committee will consider whether it is appropriate to select another independent registered public accounting firm. Even if the appointment is ratified, the Company's Audit Committee, in its sole discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

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



The Board of Directors and the Audit Committee recommend that the shareholders vote "FOR" the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's Independent Registered Public Accounting Firm for fiscal year 2019.

INDEPENDENT PUBLIC ACCOUNTANTS

Audit Fees

The audit fees incurred by the Company for services provided by PwC (i) for the year ended December 31, 2018, were \$1,718,200 and (ii) for the year ended December 31, 2017, were \$2,313,600. Audit fees include services related to the audit of the Company's consolidated financial statements, the audit of the effectiveness of internal control over financial reporting, involvement with registration statement filings, statutory audits and consultations related to miscellaneous SEC and financial reporting matters.

Audit-Related Fees

During each of 2018 and 2017, the Company incurred \$21,700 and \$68,600, respectively, in fees for assurance and related services performed by PwC that were reasonably related to the performance of the audit or review of the Company's financial statements that are not reported in the preceding section.

Tax Fees

Tax fees incurred by the Company for services provided by PwC (i) in 2018, were \$130,100 and (ii) in 2017, were \$144,039. Tax fees include services related to tax return preparation for a related entity, tax consultation and tax advice.

All Other Fees

All other fees incurred by the Company for services provided by PwC relate to the use of Inform, PwC's accounting research software, and PwC's disclosure checklist software, which amounted to \$4,500 in each of 2018 and 2017. The Audit Committee has considered whether the provision of non-audit services to the Company is compatible with maintaining PwC's independence.

The Audit Committee has adopted a policy of evaluating and pre-approving all audit and non-audit services provided by the independent auditors. The Committee may delegate pre-approval authority to a member, provided that decisions of such member shall be presented to the full Committee at its next scheduled meeting. The Audit Committee pre-approved all audit and permissible non-audit services provided by the independent auditors in 2018.

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

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

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

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

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

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

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



The Board of Directors recommends a vote "FOR" the approval of the advisory resolution relating to the compensation of the Company's Named Executive Officers as disclosed in this Proxy Statement.

COMPENSATION DISCUSSION AND ANALYSIS

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Executive Summary

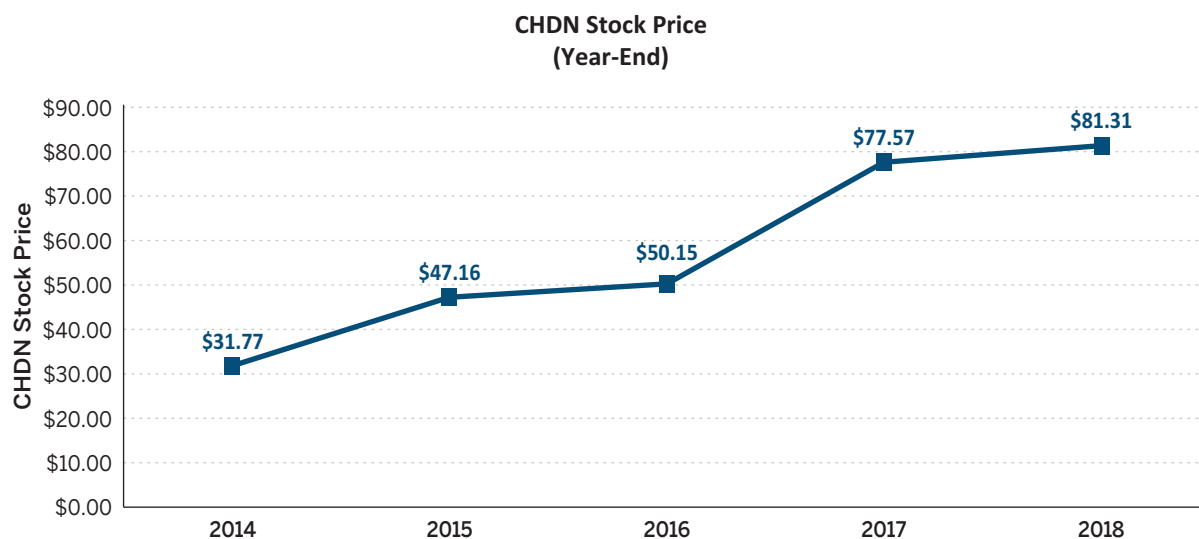
Churchill Downs Incorporated is an industry-leading provider of racing, gaming, and online entertainment and wagering. As such, our long-term success depends on our ability to attract, engage, motivate and retain highly talented executives and key employees to achieve our strategic plans and deliver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

This Compensation Discussion and Analysis describes the Company’s executive compensation policies and programs and how they apply to our NEOs (the senior executives included in the 2018 Summary Compensation Table on page 41). It also describes the actions and decisions of the Compensation Committee of the Board of Directors (the “Compensation Committee” or “Committee”), which oversees the executive compensation program and determines the compensation of the NEOs. A detailed discussion of the Committee’s structure, roles and responsibilities, and related matters can be found under “Compensation Committee” on pages 17-19. As noted above, all share and per-share information presented in this in this Proxy Statement has been adjusted to reflect the Stock Split, including all such figures included in the Compensation Discussion and Analysis and the executive compensation tables that follow.

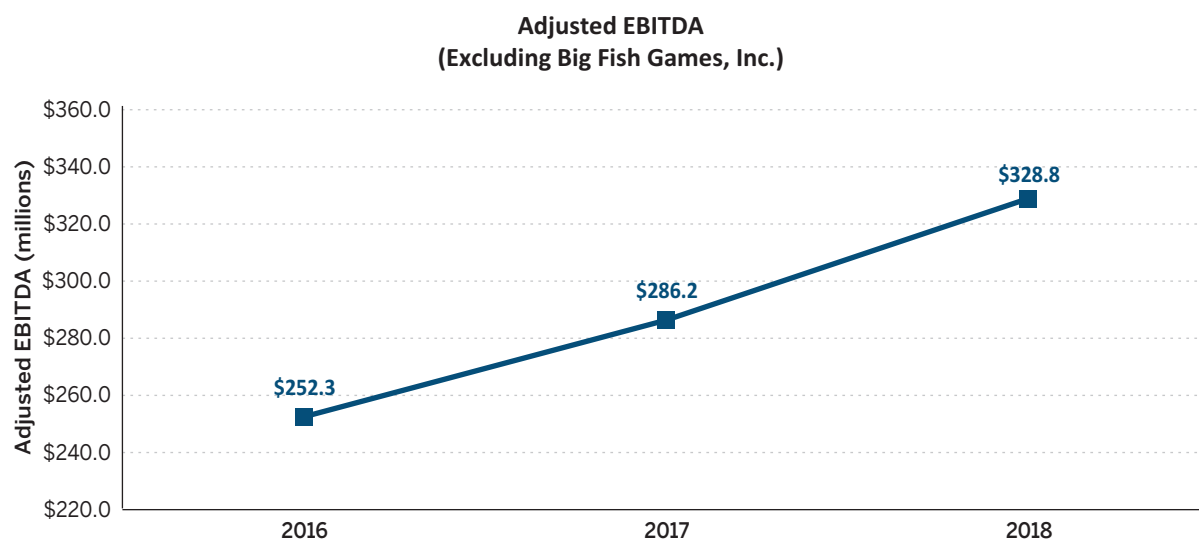
Our long-term incentive goals are based on operational results that the Committee believes drive Company and shareholder success over multi-year performance periods. Certain metrics the Company uses to determine this success are as follows (see Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in the 10-K for Fiscal Year 2018 for reconciliation of these metrics to the most directly comparable GAAP measures, and the discussion of Long-Term Incentives beginning on page 35):

- **Adjusted EBITDA**—Adjusted EBITDA used for compensation purposes in fiscal year 2018 was \$551.7 million, a 49.0% increase compared to fiscal year 2017 Adjusted EBITDA for compensation purposes of \$370.3 million;
- **Cash Flow Metric**—Cash Flow Metric for compensation purposes in fiscal year 2018 was \$159.4 million, a 13.8% decrease compared to fiscal year 2017 Cash Flow Metric for compensation purposes of \$184.9 million; and
- **Total Shareholder Return**—Total Shareholder Return from January 2, 2018 to December 31, 2018 was 3.1%.

As illustrated in the following chart, the Company’s stock price increased to \$81.31 per share as of December 31, 2018 from \$31.77 per share as of December 31, 2014.

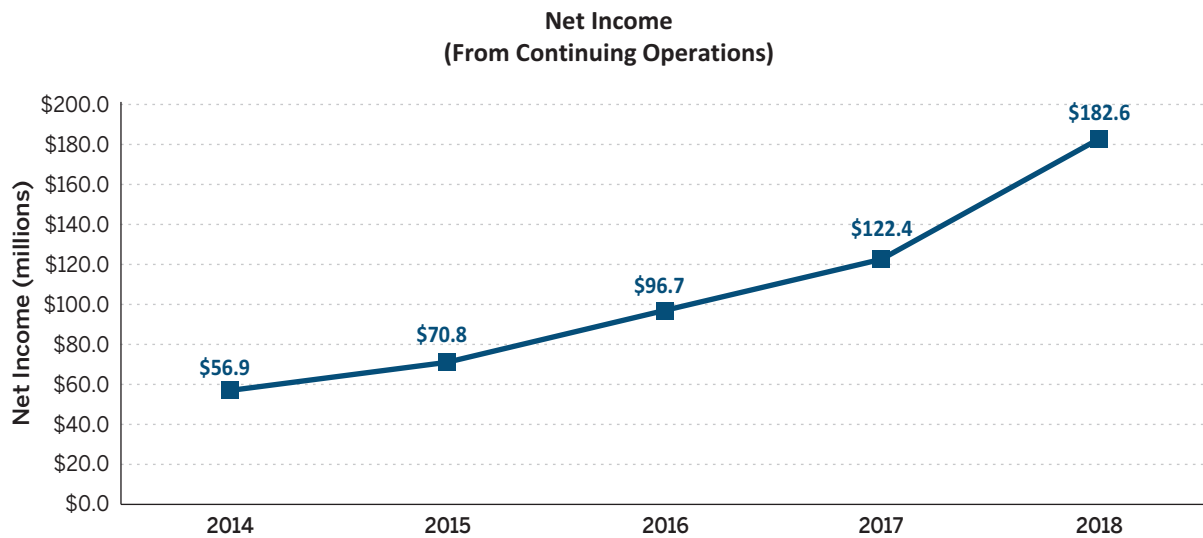


Similarly, as illustrated in the following chart, Adjusted EBITDA (excluding Big Fish Games, Inc.) has grown steadily, increasing from \$252.3 million in 2016 to \$328.8 million in 2018 (representing a compound annual growth rate of 14%). While the Company believes its Adjusted EBITDA performance has been very strong over the past five-year period, the Company is only providing Adjusted EBITDA data for the past three years to correspond to the reconciliation provided in the Company’s Form 10-K for the fiscal year ended December 31, 2018, as referenced below.



* Please refer to “Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on February 27, 2019 for a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP measure. Adjusted EBITDA results for fiscal years 2015 and 2014 can be located in the Company’s Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on February 28, 2017, although such figures included Big Fish, as noted within such Form 10-K.

As reflected in the chart below, the Company's total net income has also grown steady, with net income from continuing operations increasing from \$56.9 million in 2014 to \$182.6 million in 2018 (representing a compound annual growth rate of 34%).



Big Fish Games

On November 29, 2017, the Company entered into a definitive Stock Purchase Agreement (the "Purchase Agreement") to sell its mobile gaming subsidiary, Big Fish Games, Inc. and its specified subsidiaries ("Big Fish"), to Aristocrat Technologies, Inc. (the "Transaction"). On January 9, 2018, the Company completed the Transaction for an aggregate purchase price of \$990.0 million, subject to adjustments set forth in the Purchase Agreement. In connection with the Transaction, the Company and Mr. Paul Thelen (then-current President of Big Fish), entered into a separation agreement and release effective as of the closing date of the Transaction. Although Mr. Thelen is no longer an employee of the Company, under SEC executive compensation disclosure rules, Mr. Thelen is considered an NEO. Because of his limited tenure with the Company during 2018 and his unique compensation arrangements for 2018, we have included a discussion of Mr. Thelen's 2018 compensation arrangements in the section entitled "Compensation Arrangements for President of Big Fish" below rather than throughout the Compensation Discussion and Analysis.

Key 2018 Compensation Actions

The primary elements of our total direct compensation program for the NEOs and a summary of the actions taken by the Compensation Committee during 2018 are set forth below. This summary excludes the October 2018 one-time grants made to Messrs. Carstanjen and Mudd, as described further below, as such grants are not considered part of our annual compensation program.

Compensation Component	Link to Business and Talent Strategies	2018 Compensation Actions
Base Salary (Page 32)	<ul style="list-style-type: none"> Competitive base salaries help attract and retain executive talent. 	<ul style="list-style-type: none"> Merit and market-based increases for 2018.
Annual Cash Incentive Compensation (Page 32)	<ul style="list-style-type: none"> Focus executives on achieving annual financial and non-financial results that are considered key indicators of annual financial and operational performance. 	<ul style="list-style-type: none"> Merit and market-based increases to annual cash incentive target opportunities for 2018. Annual cash incentive awards were earned above target at an average of 149% due to strong Company performance
Long-Term Equity Incentive Compensation (Page 35)	<ul style="list-style-type: none"> 2018 annual equity-based awards consist of PSUs and RSUs. PSUs vest based on achievement of Adjusted EBITDA and Cash Flow metrics that are considered key indicators of long-term performance, with vesting adjusted based on a relative total shareholder return (“TSR”) performance to additionally incorporate creation of stockholder value over the performance period. RSUs provide focus on stock price growth and serve our talent retention objectives. 	<ul style="list-style-type: none"> Merit and market-based increases to target value of equity awards for 2018. The target value of the equity award mix is typically balanced between PSUs (50%) and RSUs (50%). PSUs are subject to a 3-year performance period (2018 -2020) and will be earned based on Adjusted EBITDA (weighted 50%) and Cash Flow (weighted 50%) goals, with a relative TSR modifier of +/-25%. RSUs vest over three years, in equal annual installments on each of December 31, 2018, December 31, 2019 and December 31, 2020.

Executive Compensation Philosophy and Core Principles

What We Do	What We Don't Do
<ul style="list-style-type: none"> ✓ Target Median Compensation Among Peer Group ✓ Executive Stock Ownership Guidelines ✓ Clawback Policy on Cash Bonus and Equity Incentives ✓ Performance-based Awards Vesting over Multi-year Periods ✓ Capped Bonus Payments under Annual Incentive Plan ✓ Capped PSU Vesting Levels ✓ Payouts Tied to Individual and Company Performance ✓ Use of an Independent Compensation Consultant ✓ Anti-hedging policy, applicable to all directors and employees 	<ul style="list-style-type: none"> ✗ No Employment Agreements ✗ No Re-pricing of SARs or Stock Options ✗ No Excise Tax Gross-ups upon Change in Control ✗ No Excessive Perquisites

The fundamental philosophy of the Compensation Committee is to provide an executive compensation program that links pay to business strategy and performance in a manner that is effective in attracting, motivating and retaining key executives while also aligning the interests of the executives with the interests of shareholders over the long-term. To that

end, the Compensation Committee evaluates the pay practices of its peers and targets the median of the peer group. In order to continue to support the Company's high-performance culture, the Company's key principles underlying the executive compensation program are to:

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

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

CEO 2018 Compensation

The Compensation Committee utilizes the services of an independent executive compensation consultant, Frederic W. Cook & Co., Inc. ("FW Cook"), to conduct an annual Executive Compensation Market Study to identify appropriate gaming-based peer companies and analyze the CEO pay level against the peers of the Company. The Committee reviews each component of cash compensation (base salary and cash bonus), long-term incentives and total direct compensation for its peers' CEOs, in relation to the Company's CEO (Mr. William Carstanjen). As discussed above, the Company's compensation philosophy is to pay at the median of its peer group, and we note that the Company's net income and market capitalization approximate the median of the selected peer companies.

As discussed in greater detail on page 31, for fiscal year 2018, the peer group was: Aristocrat Leisure Limited (ALL); Boyd Gaming Corporation (BYD); Caesars Entertainment Corp. (CZR); Eldorado Resorts Inc. (ERI); Gaming and Leisure Properties Inc. (GLPI); Madison Square Garden Company (MSG); MGM Resorts International (MGM); Penn National Gaming, Inc. (PENN); Pinnacle Entertainment Inc. (PNK); Red Rock Resorts Inc. (RRR); Scientific Games Corp (SGMS); Tropicana Entertainment Inc. (TPCA); and Wynn Resorts, Limited (WYNN).

The table below summarizes the 2018 peer group's target compensation data provided by FW Cook, along with Mr. Carstanjen's 2017 and 2018 compensation:

	CEO Cash Compensation			CEO Long Term Incentives	CEO Total Compensation
	Base Salary	Target Bonus	Target Total Cash	Total LTI	Target Total Direct Compensation
75 th Percentile (Peer Group)	\$2,030,000	\$3,605,000	\$5,665,000	\$6,420,000	\$10,747,000
Median (Peer Group)	\$1,545,000	\$1,978,000	\$3,708,000	\$4,339,000	\$ 8,533,000
25 th Percentile (Peer Group)	\$1,030,000	\$1,030,000	\$2,060,000	\$2,073,000	\$ 5,357,000
Carstanjen (2017 Target)	\$1,030,000 <i>(below peer median)</i>	\$1,442,000 <i>(below peer median)</i>	\$2,472,000 <i>(below peer median)</i>	\$4,000,000 <i>(below peer median)</i>	\$ 6,472,000 <i>(below peer median)</i>
Carstanjen (2018 Target)	\$1,350,000 <i>(below peer median)</i>	\$2,025,000 <i>(at peer median)</i>	\$3,375,000 <i>(below peer median)</i>	\$4,600,000 <i>(slightly above peer median)</i>	\$ 7,975,000 <i>(below peer median)</i>

To compensate Mr. Carstanjen closer to the median pay level for his peer group and with a higher weighting on long-term incentives, the Compensation Committee approved the following pay actions in the first quarter of 2018:

1. Increased Mr. Carstanjen's annual base salary from \$1,030,000 to \$1,350,000, resulting in a base salary that remains below the median of the peer group.
2. Increased Mr. Carstanjen's annual target cash bonus percent from 140% to 150% of base pay, resulting in a target bonus that is slightly above the median of the peer group.
3. Increased Mr. Carstanjen's long-term incentives from \$4,000,000 to \$4,600,000. Fifty percent (50%) of the long-term incentives are PSUs with a three-year performance period, and the remaining fifty percent (50%) are time-based RSUs with ratable vesting over three years.

As a result of these actions, Mr. Carstanjen’s target total direct compensation for 2018 moved closer to, but is still below, the median of the CEO peer group as shown in the table above.

Mr. Carstanjen became the CEO of the Company in 2014, and the performance of the Company since his assumption of the CEO role has been outstanding, with a total shareholder return of 183% and over \$1 billion returned to the Company’s shareholders through share repurchases and dividends over the past five years. The Company’s outstanding performance is further reflected in the key business metrics summarized in the table below.

	Fiscal Year 2014	Fiscal Year 2018	% Increase	4-Year Compound Annual Growth Rate (CAGR)
CHDN Stock Price	\$31.77	\$81.31	156%	26%
Net Income (from continuing operations) (millions)	\$ 56.9	\$182.6	221%	34%
Earnings Per Share (from continuing operations, diluted)	\$ 1.08	\$ 4.39	306%	42%
Net Income (millions)	\$ 46.4	\$352.8	660%	66%
Dividends Per Share	\$0.333	\$0.543	63%	13%

In addition to the strong performance of the Company since Mr. Carstanjen became CEO, the Compensation Committee believes that other market factors also increased the market demand for executives with Mr. Carstanjen’s skills and experience. For instance, in May 2018 the Supreme Court of the United States cleared the way for states to legalize sports betting, striking down a federal law that had prohibited sports betting in most states. As a result of this Supreme Court ruling and previous decisions related to internet-based gaming over the last several years, growth opportunities for gaming companies have increased and there have been new entries from across the globe into the sector. In light of these developments and Mr. Carstanjen’s leadership, unique skills and proven success in the field, the Compensation Committee believes that there is high demand for executives such as Mr. Carstanjen and reasonably anticipated that there would be increased solicitation of Mr. Carstanjen for alternative employment opportunities.

In light of the above, on October 30, 2018, the Company approved a one-time, meaningful, performance-oriented and career-focused equity award (the “7-Year Grant”) to Mr. Carstanjen.

The 7-Year Grant is in addition to participation in the Company’s regular annual long-term incentive program and is sized such that it will serve as substantial incentive to keep Mr. Carstanjen focused on shareholder return and the long-term financial success of the Company. As described in more detail below, the earliest vesting date for any of the stock units awarded pursuant to the 7-Year Grant is the fourth anniversary of the grant date, and full vesting cannot occur until the seventh anniversary of the grant date.

There are three key elements in the design of the 7-Year Grant: (1) inclusion of performance goals designed to reinforce the Company’s pay for performance philosophy; (2) linkage to the Company’s share price appreciation and shareholder interests, with threshold performance set above the median of the comparator group (as described below) and target performance set at the 70th percentile of the comparator group; and (3) appropriate leverage to provide a meaningful compensation opportunity while not promoting excessive risk taking. In addition, the 7-Year Grant is not eligible for full vesting until the seventh-anniversary of the grant date, thereby reinforcing the retentive aspect of this award.

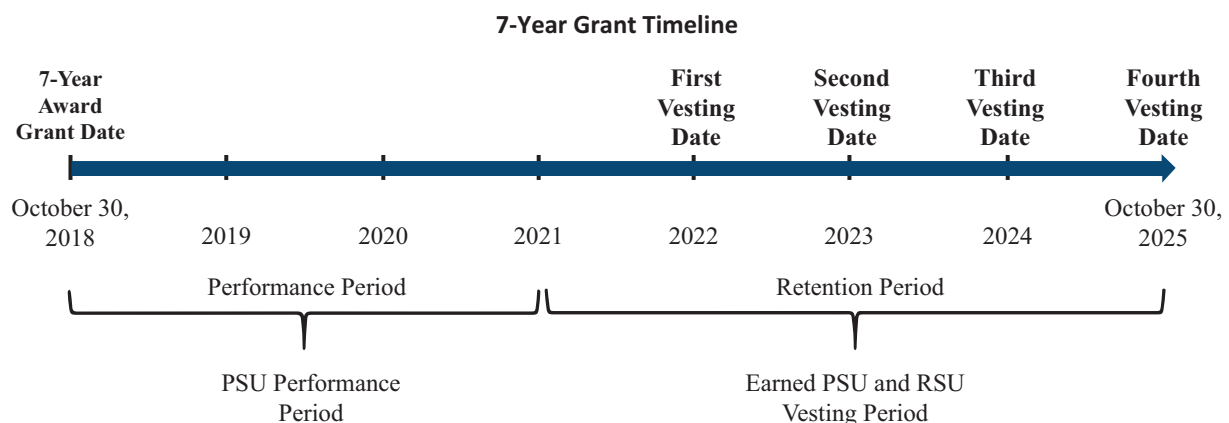
Sixty-seven (67%) of the stock units awarded were in the form of PSUs, with vesting based on the Company’s relative TSR performance versus the Russell 2000 over a three-year performance period (October 30, 2018 through October 29, 2021). The award will be forfeited if the Company does not achieve threshold performance of at least 55th percentile versus the Russell 2000 during the three-year performance period. To mitigate for spot strike price volatility, the Company will use a 20-day averaging period at the beginning and end of the performance period to calculate TSR. In addition, the calculation of TSR will assume reinvestment of the dividends and exclude companies that are acquired during the performance period and treat bankruptcies as low performers. None of the shares subject to the award will vest if the Company’s performance ranks below the threshold performance goal. Vesting levels for performance between performance levels will be interpolated. Notwithstanding above-target performance, vesting will be limited to 100% if the Company’s TSR is negative. Once the vesting level of the PSUs has been calculated for the three-year performance period, the awards will be subject to

time-based vesting in 25% annual increments over four years beginning on the fourth anniversary of the grant date, totaling seven years to be fully vested. The performance criteria for the PSUs is set forth in the table below:

Relative TSR During the 3-Year Performance Period	Percentage of Shares Earned Based on Achievement Level ⁽¹⁾	Vesting Level
Superior Performance (85 th Percentile)	200%	Maximum
Robust Performance (70 th Percentile)	100%	Target
Threshold Performance (55 th Percentile)	50%	Threshold
Below Threshold	0%	Below Threshold

Mr. Carstanjen was awarded 127,587 PSUs with a grant date fair value equal to \$8,040,107 based on a Monte Carlo valuation on October 30, 2018.

The remaining 33% of the stock units awarded pursuant to the 7-Year Grant were in the form of service-based RSUs, which vest in 25% annual increments over four years beginning on the fourth anniversary of the grant date, totaling seven years to be fully vested. Mr. Carstanjen was awarded 48,711 time-based RSUs (grant date fair value of \$3,960,204).



2018 “Say-on-Pay” Advisory Vote on Executive Compensation

The Compensation Committee monitors closely the results of the annual advisory “say-on-pay” vote, and considers such results as one of the many factors considered in connection with the discharge of its responsibilities. In 2018, the Company provided shareholders a “say-on-pay” advisory vote on its executive compensation program, as disclosed in the Company’s 2018 proxy statement. At the 2018 annual meeting of shareholders, approximately 97% of our shareholders voting on the proposal expressed support for the compensation of our NEOs as disclosed in the 2018 proxy statement. The Compensation Committee considered the results of the 2018 advisory vote and also considered other factors in evaluating the Company’s executive compensation programs as discussed in this Compensation Discussion and Analysis, including the advice of the Committee’s independent compensation consultant, and did not make any changes to the executive compensation program in response to the 2018 “say-on-pay” vote.

Role of Management and Independent Advisors

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

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

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

The Committee has sole discretion, at the Company's expense, to retain and terminate independent advisors, including sole authority to approve the fees and retention terms for such advisors, if it shall determine the services of such advisors to be necessary or appropriate. Such advisors are engaged by, and report directly to, the Committee. Since March 2015, the Committee has retained FW Cook as its independent compensation consultant. The scope of the engagement of FW Cook includes:

- Assisting the Chairman of the Committee in establishing appropriate agendas for the Committee meetings;
- Reviewing management reports and recommendations to the Committee as related to executive compensation matters;
- Attending all Committee meetings and providing the Committee with input and advice based on the advisor's broad experience with market practices, including a perspective with regard to the competitive market;
- Assisting with the review of pay and performance and the evaluation of payouts under the Company's annual and long-term incentive programs;
- Assisting in the review and evaluation of non-employee director compensation;
- Providing the Committee and management with data on market practices for executive pay;
- On behalf of the Committee, assisting management with disclosures, including this Compensation Discussion and Analysis;
- Providing updates to the Committee with regard to regulatory developments;
- Assisting the Committee in evaluating future equity grants and cash compensation for the NEOs, including the CEO; and
- Evaluating and providing input on the 7-Year Grants and the updated Change in Control Agreements executed by Mr. Carstanjen and Mr. Mudd in 2018.

FW Cook did not provide any services to the Company other than advising the Committee as provided above. All of the decisions with respect to the Company's executive compensation programs are made by the Committee alone and may reflect factors and considerations other than, or that may differ from, the information and recommendations provided by management or its outside advisor. The Compensation Committee assessed FW Cook's independence in light of the SEC requirements and NASDAQ listing standards and determined that FW Cook's work did not raise any conflict of interest or independence concerns.

Factors Used to Evaluate Pay Decisions

The Company seeks to obtain and retain the services of executives who bring the skills, experience, and motivation deemed necessary to significantly expand the scope and scale of the Company's operations. Therefore, compensation decisions for individual executives are made based on a balance of many subjective factors as evaluated by the CEO in the case of his direct reports (with Committee review and approval) and the Committee in the case of the CEO. These factors include:

- The scope and responsibility of the NEO's position and the perceived level of contribution;
- Internal comparisons among the executive's peers at the Company;

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

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

In making executive pay decisions, the Committee relies substantially on the advice and experience of its independent advisor and the CEO to evaluate the reasonableness of executive pay. The CEO does not make recommendations with respect to his own compensation. The Committee determines pay levels and practices based on the talent needs of the organization as defined by our strategy of growing and diversifying revenues and with the guidance of the Committee's independent advisor.

Nevertheless, the Committee believes that it is important for the Company to stay competitive on compensation and the Committee, with the assistance of the Committee's independent advisor, conducts periodic reviews of compensation relative to similarly situated businesses, which can lead to adjustments in compensation and program offerings. The compensation peer group was selected to represent a reasonable match to the Company in terms of size and business characteristics. The group consists of public, similarly sized gaming companies (including traditional gaming, casinos, and internet/software gaming to reflect the Company's diverse operations), where the median net income and market capitalization approximate the Company's net income and market capitalization. The Company periodically reviews the peer group and makes adjustments, as deemed necessary, for continued appropriateness as a market reference for informing executive compensation levels. Following the sale of Big Fish, the peer group was adjusted to better reflect the Company's current mix of traditional gaming and horseracing companies. Accordingly, the following companies were (i) removed from the Company's historical peer group: Activision Blizzard, Inc. (ATVI); Blucora Inc. (BCOR); Choice Hotels International Inc. (CHH); Electronic Arts Inc. (EA); Glu Mobile Inc. (GLUU); ILG Inc. (ILG); Isle of Capri Casinos, Inc. (ISLE); RealNetworks Inc. (RNWK); Take-Two Interactive Software, Inc. (TTWO); and Zynga Inc. (ZNGA) and (ii) added to the Company's historical peer group: Aristocrat Leisure Limited (ALL); Caesars Entertainment Corp. (CZR); Eldorado Resorts Inc. (ERI); Gaming and Leisure Properties Inc. (GLPI); Madison Square Garden Company (MSG); and Red Rock Resorts Inc. (RRR).

Fiscal 2018 Peer Group

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

It is the opinion of the Committee that the pay decisions made by the Committee are reasonable relative to pay provided to executives at other similar public companies, based on the Committee's experience, the performance expectations established for each element of pay, and consultation with the Committee's independent advisor.

Components of Compensation

During 2018, the Company used multiple components to provide an overall compensation and benefits package designed to attract and retain the needed level of executive talent for the Company and to incentivize their performance. The following table sets forth the principal compensation elements of the Company’s 2018 executive compensation program and how each element fits into the Company’s overall compensation program and is supportive of the Company’s executive compensation objectives.

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

Base Salary

The Committee’s philosophy is that base salaries should meet the objectives of attracting and retaining the executive talent needed to grow the business and create shareholder value. Therefore, the Committee establishes base salaries for new hires based on the advice of management and its independent advisor regarding reasonable market pay practices, and comparisons with the executive’s peers at the Company. Upon promotion or other adjustment of responsibilities, executives receive base pay increases that are intended to be commensurate with their new role or responsibilities and the pay levels for colleagues at similar levels in the organization and market pay practices, with more modest rates of increase thereafter.

In 2018, the following adjustments were made to the base salaries for the Company’s NEOs:

Name	Position	2017 Base Salary (\$) ⁽¹⁾	Percentage Change ⁽³⁾	Salary Change (\$)	2018 Base Salary (\$) ⁽²⁾
William C. Carstanjen	Chief Executive Officer	1,030,000	31.1%	+320,000	1,350,000
William E. Mudd	President & COO	650,000	15.4%	+100,000	750,000
Marcia A. Dall	EVP & CFO	550,000	13.6%	+75,000	625,000
Austin W. Miller	SVP, Gaming Operations	387,810	4.0%	+15,512	403,322

- (1) Annual rate of base compensation shown as of December 31, 2017.
- (2) Annual rate of base compensation shown as of December 31, 2018. Actual salaries paid in 2018 are shown in the 2018 Summary Compensation Table on page 41.
- (3) As discussed above in the “CEO 2018 Compensation” section on pages 27-29, Mr. Carstanjen’s salary was adjusted in 2018 in response to the peer group compensation analysis performed by FW Cook. Similar peer group market analyses were performed for the President & COO and CFO positions, and adjustments were made to Mr. Mudd’s and Ms. Dall’s salaries in response to those analyses. Consistent with the Company’s compensation philosophy, adjustments were made to target the median compensation levels among our peer group.

Executive Annual Incentive Plan

Bonus awards or incentive compensation paid with respect to 2018 were determined by the Committee per the terms of the 2013 Executive Annual Incentive Plan (“EAIP”). Pursuant to the EAIP, the Committee established performance goals for the Company and bonus opportunities for the 2018 performance year. In analyzing proposed awards against target and maximum payouts, the Committee used the goals as its roadmap to determine whether to issue awards above, at, or below each NEO’s target award. As it has done historically, the Committee sets performance goals for 2018, based upon a comprehensive assessment of the Company against its long-term strategic goals and its ability to achieve said goals with its current leadership team and key employees. Therefore, individual performance by the Company’s NEOs (as measured by various factors, including, but not limited to, continued growth and diversification of the Company’s asset portfolio through acquisitions, customer and employee satisfaction, and the completion of certain specified legislative and regulatory outcomes), and unit performance led by some of the Company’s key employees (as measured by, among other things,

increases in sales and revenues) also played a significant role in setting and evaluating the Company's performance goals, and determining the proper level of compensation deemed necessary to incent the NEOs and key employees to continue to drive growth.

2018 Performance Goals. For 2018, the Committee set the following goals for the EAIP. These goals were used to assess the NEOs' performance and determine EAIP payouts as disclosed in the 2018 Summary Compensation Table on page 41. The Committee, in setting the goals, considered the challenges to the Company; however, each goal was deemed achievable, but requiring a superior level of performance. The goals are expressed generally as follows, with no specific weighting attributed to any one goal:

Overall

- Achieve revenue (\$944.2 million), adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") (\$304.5 million), diluted earnings per share (\$7.04) and capital expenditure (\$177.2 million) goals as approved by the Committee, which took into account the sale of Big Fish Games in January 2018 and the corresponding elimination of contributions to the Company's financial results from Big Fish Games after January 2018;

Racing

- Increase the financial performance of big events (e.g., Kentucky Derby, Kentucky Oaks, Arlington Million, etc.);
- Increase sponsorship opportunities and attract other events (e.g. Breeders' Cup);
- Complete projects on time and on budget, and manage overall budgets to reduce cost (without impacting the customer experience);
- Continue to work on innovative approaches to improve customer experience and engagement;
- Grow the global footprint of the Kentucky Derby;

Gaming

- Successfully develop, construct and open in-process and new capital projects to grow existing gaming properties;
- Assess and pursue opportunities to acquire accretive gaming properties;

TwinSpires

- Continue to invest in and grow our advanced deposit wagering businesses;
- Assess and pursue opportunities to expand our online gaming profile;
- Improve technology, overall performance and user experience;

Historical Horse Racing

- Complete the construction and open the Company's first historical horse racing facility in Louisville, KY, in the second half of 2018;
- Obtain additional Kentucky racing license to construct an additional standardbred and historical racing facility.

Other

- Complete sale of Big Fish Games;
- Successfully execute Dutch Auction tender offer to repurchase \$500 million shares of the Company's stock;
- Develop technology-driven cost out opportunities for all subsidiaries; and
- Build pipeline and execute acquisitions, if feasible, consistent with current plan.

Incentive Opportunities. Under the EAIP, the NEOs have target and maximum opportunities that are determined by the Committee based on internal pay equity considerations, market data, impact on total short-term compensation and the expected level of contribution of each NEO to the Company's performance goals and growth objectives.

The Compensation Committee approves the target and maximum incentive levels, after considering recommendations from the CEO for each NEO (except the CEO), at the beginning of each year. The Committee independently evaluates and approves the target and maximum incentive levels for the CEO at the beginning of each year. During 2018, the target and maximum awards assigned to the CEO and the other NEOs were as follows:

Name	Position	Target Incentive Award as a Percentage of Salary ⁽¹⁾	Target Incentive Award in (\$)	Maximum Target Incentive Award as a Percentage of Salary	Maximum Target Incentive Award in (\$)
William C. Carstanjen	Chief Executive Officer	150%	2,025,000	300%	4,050,000
William E. Mudd	President & COO	100%	750,000	200%	1,500,000
Marcia A. Dall	EVP & CFO	85%	531,250	170%	1,062,500
Austin W. Miller	SVP, Gaming Operations	60%	241,993	120%	483,986

- (1) As discussed above in the “CEO 2018 Compensation” section on pages 27-29, Mr. Carstanjen’s target incentive award as a percentage of salary was adjusted in 2018 in response to the peer group compensation analysis performed by the Company’s compensation consultant, FW Cook. Similar peer group market analyses were performed for the other NEO positions, including the CFO, and adjustments were made to Ms. Dall’s target incentive award as a percentage of salary in response to those analyses. Consistent with the Company’s compensation philosophy, adjustments were made to target the median compensation levels among our peer group.

2018 Performance Results. In determining the payouts, the Compensation Committee exercises its discretion to determine whether to payout at, above, or below the target opportunities based upon its review of the outcomes evaluated against Company and individual performance. The Compensation Committee established a minimum corporate Adjusted EBITDA performance threshold for 2018 of \$185 million, which was required to be achieved before any incentives were eligible to be paid under the EAIP for 2018. The Compensation Committee certified that actual Adjusted EBITDA for compensation purposes for 2018 exceeded this threshold and that executives were eligible for payouts under the EAIP for 2018.

In evaluating 2018 performance, the Compensation Committee considered (i) revenue from continuing operations (\$1.0 billion, an increase of 14%), net income from continuing operations (\$182.6 million, an increase of 49%), diluted net income per share from continuing operations (\$4.39, an increase of 72%), and Adjusted EBITDA from continuing operations (\$328.8, an increase of 15%), each as compared to 2017; (ii) record all sources handle for Kentucky Derby and Oaks week of \$311.2 million, up 9% compared to 2017; (iii) strong organic growth from our Calder, Riverwalk, Oxford, Fair Grounds Slots and Video Poker, and Harlow’s casino properties; (iv) capital expenditures of \$149 million; and (v) the growth of TwinSpires.com handle to \$1.4 billion, up 8% compared to 2017. The Compensation Committee determined that these achievements contributed to benefits being realized by the Company’s shareholders.

The amounts earned by the NEOs for 2018 under the EAIP are reflected in the 2018 Summary Compensation Table on page 41 in the column labeled “Non-Equity Incentive Plan Compensation.” As noted above, the Company exhibited strong overall financial performance in 2018. The NEOs were viewed by the Committee to be the primary parties responsible for the actual performance relative to the performance goals established with respect to 2018. The Compensation Committee, after considering the Company’s overall performance, awarded the NEOs EAIP awards as shown in the table on page 41. As such, the NEOs were awarded an EAIP award at the following percentage of their target incentive award: Mr. Carstanjen 148% (\$3,000,000), Mr. Mudd 167% (\$1,250,000), Ms. Dall 146% (\$775,000), and Mr. Miller 135% (\$325,700). The awards for Mr. Carstanjen, Mr. Mudd, Ms. Dall, and Mr. Miller were made pursuant to the EAIP and as a reward for the NEOs respective roles in driving performance during the period ending December 31, 2018.

2019 Executive Annual Incentive Plan

For 2019, the Company implemented a newly designed EAIP for the NEOs, whereby the majority of the annual incentive will be formulaically based on achievement to pre-established goals with defined weightings. Under this design, 75% of the 2019 EAIP award will be determined formulaically, based on corporate or business unit Adjusted EBITDA performance, and the remaining 25% will vest based on the attainment of strategic and individual goals established for each NEO, with payouts under the 2019 EAIP ranging from 0% to 200% of target.

Long-Term Incentives

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

In 2015, the Compensation Committee approved the adoption of the Executive Long-Term Incentive Plan (the "ELTI Plan"), pursuant to which the NEOs may earn variable equity payouts based upon the Company achieving certain key performance metrics. The purpose of the ELTI Plan is to provide participants with a long-term incentive program that is market-competitive and provides long-term incentives on a regular, predictable, and annual basis. Eligible participants (as determined by the Committee) may be members of the Company's senior executive team and/or such other executives and key contributors as the Committee may designate from time to time. As and to the extent determined by the Committee as part of the annual compensation planning process for participants, the CEO will participate in the ELTI Plan at a rate determined by the Committee. No individual will have an automatic right to participate in the ELTI Plan. A summary of the 2018 terms and applicable award opportunities, granted by the Committee to the NEOs, is provided below.

During the beginning of 2018, the CEO recommended employees (other than with respect to himself) to the Committee for participation in the ELTI Plan for 2018 and their respective specific levels of proposed participation. Awards granted to eligible employees under the ELTI Plan may be in the form of restricted share units ("RSUs"), performance share units ("PSUs"), or both. To pursue the key objective of linking executive compensation with Company performance, the Committee aimed to deliver at least 50% of the 2018 awards as PSUs.

The Committee approved the 2018 RSU awards on February 15, 2018, and the PSU awards (for the 36-month performance period of January 1, 2018 through December 31, 2020) under the ELTI Plan on March 26, 2018. The 2018 awards are as follows:

Executive Officer	RSUs		PSUs		Total	
	#	\$ ⁽¹⁾	#	\$ ⁽²⁾	#	\$
William C. Carstanjen	26,352	\$2,300,530	27,852	\$2,527,105	54,204	\$4,827,635
William E. Mudd	10,314	\$ 900,412	10,899	\$ 988,903	21,213	\$1,889,315
Marcia A. Dall	6,309	\$ 550,776	6,660	\$ 604,284	12,969	\$1,155,060
Austin W. Miller	5,445	\$ 475,349	3,633	\$ 329,634	9,078	\$ 804,983

- (1) The market value of the time-vesting RSUs, in the above table, was calculated utilizing the closing price of CHDN as of February 15, 2018 multiplied by the total number of time-vesting RSUs granted.
- (2) The grant date fair value for the PSUs in the above table was calculated based on the probable achievement of the performance goals and a Monte-Carlo simulation model, which factors in the value of the relative TSR modifier (defined below) that is applied to the award before the share-based payment vests. The PSUs, in the above table, represent the target opportunity, and corresponding fair value, available to the grantees should the Company achieve the pre-determined performance metrics. Actual shares that vest pursuant to the PSUs may be more or less given the performance on the selected metrics discussed below.

With respect to the PSU awards in the table above, performance will be based on the following three Performance Measures during the 36-month period from January 1, 2018 through December 31, 2020 (the "Performance Period"):

- 1) Adjusted Earnings before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA") (50% weight). Adjusted EBITDA during the Performance Period relative to the goals set for such measurement period, will be derived from the Company's consolidated financial statements with adjustments as described further below;
- 2) Cash Flow Metric ("Cash Flow Metric") (50% weight). Cumulative Cash Flow (i.e. the sum of the free cash flows from the annual periods ending December 31 of each of 2018, 2019, and 2020, respectively, where the Cash Flow Metric goals are set at the beginning of each of those three periods) will also be derived from the Company's consolidated financial statements with adjustments as described further below; and
- 3) Relative Total Shareholder Return Modifier ("TSR"). The Company's TSR modifier will be determined by ranking the return on the Company's shares against those of the companies in the Russell 2000 index (the "Index"), in each case, over the Performance Period. The Company's TSR will be calculated based upon the Company's relative placement against the Index over the Performance Period. The PSU awards determined by the Adjusted EBITDA and Cash Flow

Metric performance goals described above will then be adjusted based on the Company's TSR, by increasing the PSU awards by 25% if the Company's TSR is in the top quartile, decreasing the PSU awards by 25% if the Company's TSR is in the bottom quartile, and providing no change to the PSU awards if the Company's TSR is in the middle two quartiles.

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

With respect to the RSU awards, the RSUs vest in one third (1/3) increments on each of December 31, 2018, December 31, 2019 and December 31, 2020, respectively, generally subject to the executive's continued employment through the applicable vesting date. The Company intends to settle the vested RSUs in shares of Company common stock.

With respect to the performance period and related PSU awards under the ELTI Plan for January 1, 2016 through December 31, 2018, the actual performance was certified by the Compensation Committee in its February 2019 meeting (with a TSR at 83%, in the top 17% of the Russell 2000 over the performance period) as set forth below, with settlement of the PSUs occurring on February 27, 2019:

	Target	Maximum	Actual	% of Target	Projected Payout	Weighted Payout
Adjusted EBITDA:	\$1,118 million	\$1,342 million	\$1,280.2 million	114.5%	148.4%	74.2%
Cash Flow Metric:	\$ 435 million	\$ 522 million	\$ 566.5 million	130.3%	200% (when >120%)	100.0%
Total Weighted Payout:		174.2%				
x TSR Modifier:		125%				
Target Multiplier:		217.7%				

Name ⁽¹⁾	Target PSU Award	Target Multiplier	PSUs Awarded
William C. Carstanjen	34,311	217.7%	74,704
William E. Mudd	14,868	217.7%	32,372
Marcia A. Dall	9,984	217.7%	21,738

(1) Mr. Miller became an NEO after the 2016 ELTI awards were granted and, accordingly, did not receive a 2016 ELTI award.

During 2016, the Company changed its definition of Adjusted EBITDA to exclude changes in Big Fish deferred revenue for financial reporting purposes. For compensation purposes, Adjusted EBITDA targets under the 2016 awards were set prior to this change and, therefore, performance for these awards will be evaluated based on the definitions of Adjusted EBITDA and Cash Flow in place at the time of the establishment of the awards, per below:

- Adjusted EBITDA—as defined in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K for the year ended December 31, 2018. For compensation purposes, the Committee has determined it is appropriate to include the gain on the sale of Big Fish segment in 2018 and gain on sale of Calder land sale in 2016, both of which were pursuant to the long-term strategic plan for the Company, in the calculation of Adjusted EBITDA for compensation purposes.

	2016	2017	2018
As reported in the 2018 Form 10-K	\$252.3	\$286.2	\$328.8
Pre-tax gain on Big Fish Transaction	N/A	N/A	\$219.5
Big Fish Adjusted EBTIDA (discontinued operation)	\$ 82.2	\$ 80.3	\$ 3.4
Changes in Big Fish Deferred Revenue	\$ 0	\$ 3.8	N/A
Calder Land Sale	\$ 23.7	N/A	N/A
Adj. EBITDA for Compensation Purposes	\$358.2	\$370.3	\$551.7

- Cash Flow Metric**—The Company adopted Accounting Standards Updated No. 2016-18, Statement of Cash Flows: Restricted Cash on January 1, 2018, which requires the statement of cash flows to explain the change during the period of cash, cash equivalents, and amounts generally described as restricted cash. Due to the fact this accounting change was adopted subsequent to the cash flow metric targets established, the Company has included the change in restricted cash in the cash flow from operating activities. Therefore, our cash flow metric is defined as Cash Flows from Operating Activities in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K for the year ended December 31, 2018, not including the impact from the change in restricted cash, plus distributions of capital from equity investments less capital maintenance expenditures. For compensation purposes, the Committee has determined it is appropriate to include the net cash from sale of properties that are part of the long-term strategic plan for the Company, such as the Calder land sale, in the calculation of the cash flow metric.

	2016	2017	2018
Cash Flow from Operating Activities	\$231.4	\$215.1	\$197.8
Distributions of Capital from Equity Investments	\$ 0.7	\$ 0	\$ 0
Capital Maintenance Expenditures	\$ (30.9)	\$ (33.3)	\$ (29.6)
Calder Land Sale	\$ 25.6	N/A	N/A
Change in Restricted Cash	\$ 4.6	\$ (3.1)	\$ 8.8
Cash Flow Metric	\$222.2	\$184.9	\$159.4

- Total Shareholder Return**—defined as the Company’s stock price as of the end of the measurement period, assuming reinvestment of dividends, divided by the Company’s stock price as of the beginning of the measurement period. The Company’s Total Shareholder Return for the period January 1, 2016 through December 31, 2018 was 83.1%.

7-Year Performance-Based Equity Grant

As described in detail in the “CEO 2018 Compensation” section above, on October 30, 2018, the Company approved a special, meaningful, equity award (the “7-Year Grant”) to Mr. Carstanjen. On that same day, the Company also approved a 7-Year Grant to Mr. Mudd. The 7-Year Grants were awarded to Messrs. Carstanjen and Mudd in light of the legalization of sports betting, the leadership and unique skills of these executives, and the reasonable anticipation that there would be increased solicitation of Messrs. Carstanjen and Mudd for alternative employment opportunities. The 7-Year Grant is in addition to participation in the Company’s regular annual long-term incentive program and is sized such that it will serve as substantial incentive to retain both executives over the seven-year vesting period and keep both executives focused on the long-term financial and stock price success of the Company.

As previously described, there are three key elements in the design of the 7-Year Grant: (1) inclusion of robust performance goals designed to reinforce the Company’s pay for performance philosophy; (2) linkage to the Company’s share price appreciation and shareholder interests; and (3) appropriate leverage to provide a meaningful compensation opportunity while not promoting excessive risk taking. In addition, the 7-Year Grant is not eligible for full vesting until the seventh-anniversary of the grant date, thereby reinforcing the retentive aspect of this award.

As discussed in greater detail above, sixty-seven percent (67%) of the stock units awarded were in the form of PSUs, with vesting based on the Company’s relative TSR performance versus the Russell 2000 over a three-year performance period (October 30, 2018 through October 29, 2021), with vesting occurring thereafter in 25% annual increments over four years beginning on the fourth anniversary of the grant date, totaling seven years to be fully vested. Mr. Carstanjen was awarded 127,587 PSUs valued at \$8,040,107 based on a Monte Carlo valuation on October 30, 2018. Mr. Mudd was awarded 79,743 PSUs valued at \$5,025,138, based on a Monte Carlo valuation on October 30, 2018.

The remaining thirty-three percent (33%) of the stock units awarded were in the form of service-based RSUs, which vest in 25% annual increments over four years beginning on the fourth anniversary of the grant date, totaling seven years to be fully vested. Mr. Carstanjen and Mr. Mudd were awarded 48,711 time-based RSUs (grant date fair value of \$3,960,204) and 30,444 time-based RSUs (grant date fair value of \$2,475,097), respectively.

Executive Stock Ownership Guidelines

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

In 2018, each NEO met or exceeded the guidelines:

Executive Officer	Ownership Guidelines	Shares Owned ⁽¹⁾	Value of Shares ⁽²⁾	Multiple of Salary ⁽³⁾
William C. Carstanjen	6x	476,608	\$38,753,036	29
William E. Mudd	4x	273,862	\$22,267,711	30
Marcia A. Dall	3x	23,406	\$1,903,142	3
Austin W. Miller	3x	44,325	\$3,604,066	9

(1) Calculated as of December 31, 2018 and represents shares of Common Stock owned outright.

(2) Based on CHDN split-adjusted closing stock price of approximately \$81.31 as of December 31, 2018.

(3) Calculated using the base salary information illustrated on page 32.

Deferred Compensation and Other Benefits

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

401(k). The Company maintains a 401(k) Retirement Plan, which is a profit sharing plan that is intended to be a qualified retirement plan under Section 401(a) of the Internal Revenue Code (the “Code”). The 401(k) Retirement Plan allows all employees who meet the eligibility requirements to become participants. Participants may make salary deferral contributions pursuant to Section 401(k) of the Code up to limits prescribed by the plan and the Code. The Company makes matching contributions with respect to such salary deferrals at a rate of 100% on the first 3% of compensation deferred and 50% on deferrals in excess of 3% of compensation deferred but no more than 5% of compensation deferred. Salary deferral contributions and matching contributions are fully vested at all times. Participants are allowed to direct investment of their accounts under the 401(k) Retirement Plan into as many as 29 investment options. All assets of the 401(k) Retirement Plan are held in a trust that is intended to be qualified under Section 501 of the Code.

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

For purposes of determining earnings under the Deferred Compensation Plan, various hypothetical investment alternatives consistent with those offered under the Company’s 401(k) Retirement Plan are available. The current hypothetical investments available under the Deferred Compensation Plan consist of 38 investment return options for determining the rate of return to be credited on participant deferrals. Participants are allowed to choose among these investment return options in order to direct the hypothetical investments used to determine earnings under the Plan.

Life insurance contracts have been purchased by the Company to provide some or all of the benefits under the Deferred Compensation Plan. Other details regarding the Deferred Compensation Plan can be found in the Nonqualified Deferred Compensation Table, on page 47, and the accompanying narrative below.

Allowances and Other Benefits. The Company's standard, non-cash executive benefits are Company-paid premiums on executive term life insurance and an optional supplemental long-term disability income plan for Mr. Carstanjen, Mr. Mudd, Ms. Dall, and Mr. Miller. These plans provide benefits which are similar to those provided to eligible employees, but extend the benefit levels to be appropriate to the income of the executive officers.

For Company executives, the Company may reimburse spouse's travel expenses for travel with the executive on Company business on a case-by-case basis.

Severance Benefits. The Compensation Committee believes that arrangements that provide benefits upon termination or a change in control of the Company support the goals of attracting and retaining qualified executives. Such benefits include clarifying the terms of employment and reducing the risks to the executive where the executive believes that either the Company may undergo a merger or be acquired or where the Company has tasked the executive to develop new markets or lines of business for the Company. In addition, the Compensation Committee believes that such agreements align the interests of executives with the interests of shareholders if a qualified offer to acquire the Company is made, in that each of the executives would likely be aware of or involved in any such negotiation and it is to the benefit of shareholders to have the executives negotiating in the best interests of the Company without regard to their personal financial interests. In 2014, the Compensation Committee, in lieu of negotiating individual severance agreements with each executive, adopted a form Executive Change in Control, Severance and Indemnity Agreement (the "2014 Change in Control Agreement"). William C. Carstanjen, William E. Mudd, and Marcia A. Dall each executed a 2014 Change in Control Agreement. The 2014 Change in Control Agreements, at the time of execution, became immediately effective and each of Mr. Carstanjen's and Mr. Mudd's previously executed employment agreement terminated. In 2018, Mr. Carstanjen and Mr. Mudd each executed updated Change in Control Agreements which became immediately effective upon execution, and Mr. Carstanjen's and Mr. Mudd's 2014 Change in Control Agreements terminated. A summary of each of the Change in Control Agreements in effect for the Company's Named Executive Officers is provided below.

The Change in Control Agreement executed by Mr. Carstanjen and Mr. Mudd in 2018 provides that, subject to the Company receiving a general release of claims from the executive, in the event the executive's employment is terminated (i) by the Company other than for "Cause" (as defined in the Change in Control Agreement), "Disability" (as defined in the Change in Control Agreement) or death or (ii) by the executive for "Good Reason" (as defined in the Change in Control Agreement), the executive will be entitled to receive (a) an amount in cash equal to, in the case of Mr. Carstanjen, 2 times and, in the case of Mr. Mudd, 1.5 times the sum of (x) the executive's annual base salary and (y) the amount of the executive's annual target bonus for the year in which the Executive was terminated, and (b) a lump sum amount equal to the prorated in-cycle bonus of executive's target bonus for the year in which the executive's termination of employment occurs. In the event the termination occurs within the 2-year period following a "Change in Control" (as defined in the Change in Control Agreement), Mr. Mudd's severance multiple will increase to 2x. All equity-based awards in effect at the time of termination for the aforementioned reasons shall remain governed by the applicable plan or award agreement.

The 2014 Change in Control Agreement provides that, subject to the Company receiving a general release of claims from Ms. Dall, in the event Ms. Dall's employment is terminated (i) by the Company, other than for "Cause" (as defined in the Change in Control Agreement), "Disability" (as defined in the Change in Control Agreement), or death, or (ii) by Ms. Dall for "Good Reason" (as defined in the Change in Control Agreement), Ms. Dall will be entitled to receive an amount in cash equal to 1.5 times the sum of (a) Ms. Dall's annual base salary and (b) the amount of Ms. Dall's annual target bonus for the year in which Ms. Dall was terminated. In the event the termination occurs within the 2-year period following a "Change in Control" (as defined in the Change in Control Agreement), the amount shall be 2.0 times the sum of (a) and (b) above. All equity-based awards in effect at the time of termination for the aforementioned reasons shall remain governed by the applicable plan or award agreement.

Mr. Miller has not executed a Change in Control Agreement, so Mr. Miller's severance benefits would be governed by the Company's Executive Severance Policy.

The Change in Control Agreements do not provide for any tax gross-ups for excise taxes payable following a Change in Control.

Additional information regarding severance benefits may be found under “Potential Payments Upon Termination or Change in Control” on page 48.

Compensation Arrangements for President of Big Fish Games

On January 9, 2018 (the “Closing Date”), Mr. Thelen terminated his employment with the Company as part of the Company’s sale of Big Fish. As part of the Separation Agreement and Release entered into between Mr. Thelen, Big Fish, and the Company, Mr. Thelen became entitled to the following: (a) twelve months of salary continuation, equal to \$424,360 in the aggregate; (b) twelve months of COBRA subsidy, equal to \$23,820 in the aggregate; and (c) Mr. Thelen’s target bonus for the 2017 fiscal year under the Churchill Downs Incorporated Executive Annual Incentive Plan, equal to a gross amount of \$339,448. The Company terminated Mr. Thelen’s RSU agreements and PSU agreements and paid out 67,431 shares to Mr. Thelen as of the Closing Date, less 26,517 shares withheld for taxes.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the information appearing above under the heading “Compensation Discussion and Analysis” with management and, based on that review and discussion, has recommended to the Board of Directors that the “Compensation Discussion and Analysis” section be included in this Proxy Statement and the Company’s Annual Report on Form 10-K for the year ending December 31, 2018.

Compensation Committee of the Board of Directors:

R. Alex Rankin, Chairman
Robert L. Fealy
Douglas C. Grissom
Daniel P. Harrington

2018 SUMMARY COMPENSATION TABLE

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

Name and Principal Position	Year	Base Salary (\$)	Bonus (\$)	Stock Awards (\$) ⁽¹⁾	Non-Equity Incentive Plan Compensation (\$) ⁽²⁾	All Other Compensation (\$) ⁽³⁾	Total (\$)	Total Excluding 7-Year Grant (\$) ⁽⁵⁾
William C. Carstanjen Chief Executive Officer	2018	1,276,154	-0-	16,827,946	3,000,000	16,269	21,120,369	9,120,058
	2017	1,023,077	-0-	4,157,013	2,250,000	17,102	7,447,192	7,447,192
	2016	1,000,000	-0-	3,112,923	1,330,000	14,338	5,457,261	5,457,261
William E. Mudd President and Chief Operating Officer	2018	726,923	-0-	9,389,550	1,250,000	47,126	11,413,599	3,913,364
	2017	642,269	-0-	1,766,800	900,000	38,049	3,347,118	3,347,118
	2016	612,692	-0-	1,348,924	616,500	38,204	2,616,320	2,616,320
Marcia A. Dall Executive Vice President and Chief Financial Officer	2018	607,692	-0-	1,155,060	775,000	16,268	2,554,020	2,554,020
	2017	544,231	-0-	1,091,465	675,000	15,535	2,326,231	2,326,231
	2016	525,000	250,000	905,815	393,750	141,004	2,215,569	2,215,569
Austin W. Miller⁽⁴⁾ Senior Vice President, Gaming Operations	2018	399,743	-0-	804,983	325,700	29,437	1,559,863	1,559,863
Paul J. Thelen Former President, Big Fish Games	2018	17,682	-0-	5,364,136	-0-	448,934	5,830,752	5,830,752
	2017	472,619	-0-	1,641,784	-0-	364,454	2,478,857	2,478,857
	2016	515,000	-0-	2,047,819	288,400	7,506	2,858,725	2,858,725

- (1) In accordance with the SEC executive compensation disclosure rules, the amounts shown in 2018 for stock awards (other than with respect to Mr. Thelen) represent the grant date fair value of such awards determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation (“FASB ASC Topic 718”), but disregarding the estimate of forfeitures, in connection with service-based RSUs and PSUs granted pursuant to the ELTI Plan to each of our participating NEOs in 2018. The amounts included in the Stock Awards column for the PSUs granted during 2018 are calculated based on the probable satisfaction of the performance conditions for such awards as of the date of grant. Assuming the highest level of performance is achieved for the 2018 PSUs subject to the Adjusted EBITDA and Cash Flow metrics, the maximum value of such PSUs at the grant date would be as follows: Mr. Carstanjen—\$5,750,278; Mr. Mudd—\$2,250,189; Ms. Dall—\$1,375,013; and Mr. Miller—\$750,063. Under FASB ASC Topic 718, the TSR vesting condition related to the 7-Year Grant is considered a market condition and not a performance condition. Accordingly, there is no grant date fair value below or in excess of the amount reflected in the table above for Messrs. Carstanjen and Mudd that could be calculated and disclosed based on achievement of the underlying market condition. In the case of Mr. Thelen, the amounts reported for 2018 represent the incremental fair value associated with the termination and settlement of Mr. Thelen’s outstanding RSU and PSU agreements, calculated in accordance with FASB ASC Topic 718. As discussed in the “Compensation Discussion and Analysis,” in connection with the sale of Big Fish and Mr. Thelen’s separation from the Company, Mr. Thelen’s RSU and PSU agreements were modified to provide for vesting and settlement on the date of Mr. Thelen’s separation from the Company. See Note 10 to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2018 for a discussion of the relevant assumptions used in calculating the amounts reported for 2018.
- (2) Amounts in this column represent payments for performance under the Executive Annual Incentive Plan (“EAIP”). Mr. Carstanjen, Mr. Mudd, Ms. Dall, and Mr. Miller received their 2018 EAIP awards in February 2019. Typically, payments for each year shown are made by March 15 of the following year.
- (3) The table below shows the components of this column for 2018, which include the Company match for each individual’s defined contribution plan contributions, life insurance premiums, supplemental long-term disability insurance premiums and allowances.
- (4) Mr. Miller became an NEO in 2018.

- (5) To demonstrate the year-over-year changes in the regular components of the Company's NEO compensation program for Messrs. Carstanjen and Mudd, we have included this column to show total compensation without the 7-Year Grant, which represented a one-time, meaningful, performance-oriented and career-focused equity award granted to each. The amounts reported in this column are calculated by subtracting from 2018 total compensation, as calculated in accordance with the SEC executive compensation disclosure rules, the grant date fair value of the PSUs and RSUs awarded under the 7-Year Grant. The amounts reported in this column differ from, and are not a substitute for, the amounts reported in the "Total" column of this table.

ALL OTHER COMPENSATION FOR FISCAL YEAR ENDED DECEMBER 31, 2018

Name	Company Contributions Under Defined Contribution Plans ⁽¹⁾ (\$)	Life Insurance Premiums ⁽²⁾ (\$)	Supplemental Long-Term Disability Insurance Premiums ⁽³⁾ (\$)	Allowances ⁽⁴⁾ (\$)	Payments under Separation Agreement ⁽⁵⁾ (\$)	Total All Other Compensation (\$)
William C. Carstanjen	11,000	3,469	1,800	-0-	-0-	16,269
William E. Mudd	36,277	1,728	1,501	7,620	-0-	47,126
Marcia A. Dall	11,000	2,580	2,688	-0-	-0-	16,268
Austin W. Miller	24,961	2,200	2,276	-0-	-0-	29,437
Paul J. Thelen	707	26	21	-0-	448,180	448,934

- (1) This amount includes Company contributions to both 401(k) and deferred compensation accounts.
- (2) Mr. Carstanjen, Mr. Mudd, Ms. Dall and Mr. Miller receive group life coverage equal to two times base salary with a \$3 million maximum. The amounts in this column are the premiums for the NEOs' coverage. Mr. Thelen received group life coverage equal to his base salary, or two times base salary in the event of an accidental death.
- (3) Mr. Carstanjen, Mr. Mudd, Ms. Dall and Mr. Miller receive long-term disability coverage equal to sixty percent (60%) of their base salary with a \$10,000 per month maximum in the event of a long-term disability. The Company offers supplemental long-term disability income insurance to help fill the gap between the executive's regular monthly net income and the amount that would be paid under the Company's standard long-term disability insurance policy that is available to other salaried employees. The amounts in this column are the premiums for the NEOs' supplemental coverage paid by the Company. Mr. Thelen received long-term disability coverage equal to his base salary with a \$10,000 per month maximum in the event of a long-term disability, pursuant to Big Fish policy.
- (4) Allowances for Mr. Mudd include \$7,620 for spousal travel.
- (5) Mr. Thelen received his target 2017 EAIP Bonus pursuant to the terms of his separation agreement and release, and such bonus was attributed to the 2017 fiscal year and included in the "All Other Compensation" table in last year's Proxy Statement. Accordingly, Mr. Thelen's bonus is excluded from this table. The remaining amounts paid to Mr. Thelen under his separation agreement (twelve months of salary continuation, equal to \$424,360 in the aggregate; and twelve months of COBRA subsidy, equal to \$23,820 in the aggregate) are included in this table.

GRANTS OF PLAN-BASED AWARDS FOR FISCAL YEAR ENDED DECEMBER 31, 2018

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

Name	Grant Date	Estimated Future Payout under Non-Equity Incentive Plan Awards ⁽¹⁾			Estimated Future Payout under Equity Incentive Plan Awards ⁽²⁾			All Other Stock Awards: Number of Shares of Stock or Units (#) ⁽³⁾	Grant Date Fair Value of Stock Awards (\$)
		Threshold (\$)	Target (\$)	Max (\$)	Threshold (#)	Target (#)	Max (#)		
William C. Carstanjen		1,012,500	2,025,000	4,050,000					
	02/15/2018							26,352	2,300,530
	03/26/2018				13,926	27,852	69,630		2,527,105
	10/30/2018							48,711	3,960,204
	10/30/2018				63,794	127,587	255,174		8,040,107
William E. Mudd		375,000	750,000	1,500,000					
	02/15/2018							10,314	900,412
	03/26/2018				5,450	10,899	27,248		988,903
	10/30/2018							30,444	2,475,097
	10/30/2018				39,872	79,743	159,486		5,025,138
Marcia A. Dall		265,625	531,250	1,062,500					
	02/15/2018							6,309	550,776
	03/26/2018				3,330	6,660	16,650		604,284
Austin W. Miller		120,997	241,993	483,986					
	02/15/2018							5,445	475,349
	03/26/2018				1,817	3,633	9,083		329,634
Paul J. Thelen		N/A	N/A	N/A					
	01/9/2018							67,431 ⁽⁴⁾	5,364,136

- (1) Represents annual incentive bonus opportunities under the EAIP for each of the NEOs. See "Executive Annual Incentive Plan" beginning on page 32. Actual bonus payments for 2018 are listed under Non-Equity Incentive Plan Compensation in the 2018 Summary Compensation Table on page 41.
- (2) With respect to the March 26, 2018 grants, the numbers represent the PSUs granted under the ELTI Plan to each of the NEOs, which vest based on the Company's performance with respect to Adjusted EBITDA for compensation purposes and the cash flow metric over the 2018-2020 performance period. The vesting of these awards is also subject to a TSR modifier which could increase or decrease the number of shares earned under an award by 25%, as more fully explained on page 35. With respect to the October 30, 2018 grants to Messrs. Carstanjen and Mudd, the numbers represent the PSUs granted pursuant to the 7-Year Grant, as more fully described on page 37.
- (3) With respect to the February 15, 2018 grants, the numbers represent RSUs granted under the ELTI Plan to each of the NEOs, which are scheduled to vest in 1/3 increments on each of December 31, 2018, 2019 and 2020, subject generally to the NEO's continued employment through the applicable vesting date. With respect to the October 30, 2018 grants to Messrs. Carstanjen and Mudd, the numbers represent RSUs awarded pursuant to the 7-Year Grant, with vesting in 25% annual increments over four years beginning on the fourth anniversary of the grant date, totaling seven years to be fully vested.
- (4) This amount represents the outstanding RSUs and PSUs that were modified by the Company in connection with Mr. Thelen's separation from the Company and does not reflect a new equity grant. As noted in the "Compensation Discussion and Analysis," in connection with the sale of Big Fish and Mr. Thelen's separation from the Company, Mr. Thelen's RSU and PSU agreements were modified to provide for vesting and settlement on the date of Mr. Thelen's separation from the Company.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END FOR FISCAL YEAR ENDED DECEMBER 31, 2018

The following table provides information regarding unvested stock awards held by each of the Named Executive Officers on December 31, 2018. As of such date, none of our Named Executive Officers held any outstanding option awards.

Name	Stock Awards			
	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) ⁽¹⁾	Equity Incentive Plan Awards; Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards; Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) ⁽¹⁾
William C. Carstanjen	79,176 ⁽²⁾	6,438,062	194,124 ⁽⁴⁾	15,784,863
William E. Mudd	42,801 ⁽²⁾	3,480,291	107,085 ⁽⁴⁾	8,707,435
Marcia A. Dall	7,593 ⁽²⁾	617,412	16,815 ⁽⁴⁾	1,367,283
Austin W. Miller	3,630 ⁽²⁾	295,167	3,633 ⁽⁴⁾	295,411
	9,483 ⁽³⁾	771,094	-0-	-0-

- (1) Based on the December 31, 2018 split-adjusted closing price of CHDN of approximately \$81.31 per share.
- (2) Represent awards under the ELTI Plan consisting of RSUs for continued employment periods from January 1, 2017—October 30, 2025. The 79,176 RSUs for Mr. Carstanjen vest as follows: 21,681 units on December 31, 2019; 8,784 units on December 31, 2020; 12,177 on October 30, 2022; 12,177 on October 30, 2023; 12,177 on October 30, 2024 and 12,180 on October 30, 2025. The 42,801 RSUs for Mr. Mudd vest as follows: 8,919 units on December 31, 2019; 3,438 units on December 31, 2020; 7,611 on October 30, 2022; 7,611 on October 30, 2023; 7,611 on October 30, 2024 and 7,611 on October 30, 2025. The 7,593 RSUs for Ms. Dall vest as follows: 5,490 units on December 31, 2019 and 2,103 units on December 31, 2020. The 3,630 RSUs for Mr. Miller vest as follows: 1,815 units on December 31, 2019 and 1,815 units on December 31, 2020.
- (3) Represents restricted shares awarded to Mr. Miller under the 2007 Omnibus Stock Incentive Plan and 2016 Omnibus Stock Incentive Plan in connection with Mr. Miller's continued employment. The 9,483 restricted shares vest as follows: 3,063 on February 17, 2019; 3,357 on December 31, 2019 and 3,063 on February 17, 2020.
- (4) Represent awards under the ELTI Plan consisting of PSUs for certain performance periods from January 1, 2017 through October 30, 2021. The 194,124 PSUs for Mr. Carstanjen are subject to vesting upon meeting the performance criteria at the end of the following performance periods: 38,685 units on December 31, 2019; 27,852 units on December 31, 2020; 31,897 units on October 30, 2022; 31,897 units on October 30, 2023; 31,897 units on October 30, 2024 and 31,896 units on October 30, 2025. The 107,085 PSUs for Mr. Mudd are subject to vesting upon meeting the performance criteria at the end of the following performance periods: 16,443 units on December 31, 2019; 10,899 units on December 31, 2020; 19,936 units on October 30, 2022; 19,936 units on October 30, 2023; 19,936 units on October 30, 2024 and 19,935 units on October 30, 2025. The 16,815 PSUs for Ms. Dall are subject to vesting upon meeting the performance criteria at the end of the following performance periods: 10,155 units on December 31, 2019 and 6,660 on December 31, 2020. The 3,633 PSUs for Mr. Miller are subject to vesting upon meeting the performance criteria at the end of the December 31, 2020 performance periods.

STOCK VESTED FOR FISCAL YEAR ENDED DECEMBER 31, 2018

The following table provides information concerning vesting of stock awards during 2018 for each of the Named Executive Officers. None of our Named Executive Officers held any stock options during 2018.

	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) ⁽²⁾
William C. Carstanjen	107,821 ⁽¹⁾	9,902,537
William E. Mudd	46,247 ⁽¹⁾	4,252,444
Marcia A. Dall	36,057 ⁽¹⁾	3,328,504
Austin W. Miller	11,595	962,850
Paul J. Thelen	67,431 ⁽³⁾	5,364,136 ⁽³⁾

(1) Shares include PSU vesting for Mr. Carstanjen (74,704), Mr. Mudd (32,372), and Ms. Dall (21,738) for the performance period January 1, 2016 through December 31, 2018, as more fully explained under *Long Term Incentives* on page 36.

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

(3) This amount represents the outstanding RSUs and PSUs that were modified by the Company in connection with Mr. Thelen's separation from the Company and does not reflect a new equity grant. As noted in the "Compensation Discussion and Analysis," in connection with the sale of Big Fish and Mr. Thelen's separation from the Company, Mr. Thelen's RSU and PSU agreements were modified to provide for vesting and settlement on the date of Mr. Thelen's separation from the Company.

NONQUALIFIED DEFERRED COMPENSATION FOR FISCAL YEAR ENDED DECEMBER 31, 2018

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

Name	Executive Contributions in Last Fiscal Year (\$) ⁽¹⁾	Registrant Contributions in Last Fiscal Year (\$) ⁽²⁾	Aggregate Earnings (Losses) in Last Fiscal Year (\$)	Aggregate Withdrawals Distributions (\$)	Aggregate Balance at Last Fiscal Year End (\$) ⁽³⁾
William C. Carstanjen	-0-	-0-	-0-	-0-	-0-
William E. Mudd	36,346	25,277	(41,472)	-0-	566,632
Marcia A. Dall	-0-	-0-	(14,944)	-0-	198,206
Austin W. Miller	59,961	13,961	(35,925)	-0-	1,427,934
Paul J. Thelen	-0-	-0-	-0-	-0-	-0-

- (1) The amounts in this column are also included in the 2018 Summary Compensation Table on page 41 in the salary column or the non-equity incentive plan compensation column.
- (2) The amounts in this column are also included in the 2018 Summary Compensation Table on page 41 in the all other compensation column as a part of the Company contributions under defined contribution plans.
- (3) Of the totals in this column, the following totals have previously been reported in the Summary Compensation Table for this year and for previous years:

Name	2018 (\$)	Previous Years (\$)
William C. Carstanjen	-0-	-0-
William E. Mudd	61,623	346,313
Marcia A. Dall	-0-	175,900
Austin W. Miller	73,922	N/A ⁽¹⁾
Paul J. Thelen	-0-	-0-

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

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

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

The Company has entered into certain agreements and maintains certain plans that will require the Company to provide compensation to the NEOs in the event of a termination of employment. None of our compensation arrangements with our NEOs provide for single trigger vesting or severance benefit upon a change in control ("CIC") of the Company without a related or subsequent qualifying termination of employment. The amount of compensation payable to each NEO in each situation as of December 31, 2018 is listed in the table below.

Name	Cash Severance Payment (\$)	Acceleration & Continuation of Equity Awards (\$) ⁽¹⁾	Total Benefits (\$)
William C. Carstanjen			
Involuntary or good reason termination	8,777,250	9,866,407 ⁽⁴⁾	18,643,657
Change in control without termination	-0-	-0-	-0-
Death or Disability	2,025,000 ⁽²⁾	9,866,407 ⁽⁵⁾	11,891,407
Involuntary or good reason termination within 2 years CIC	8,777,250	22,222,925 ⁽³⁾	31,000,175
William E. Mudd			
Involuntary or good reason termination	3,002,417	5,027,290 ⁽⁴⁾	8,029,707
Change in control without termination	-0-	-0-	-0-
Death or Disability	750,000 ⁽²⁾	5,027,290 ⁽⁵⁾	5,777,290
Involuntary or good reason termination within 2 years CIC	3,752,417	12,187,725 ⁽³⁾	15,940,142
Marcia A. Dall			
Involuntary or good reason termination	1,736,792	1,348,418 ⁽⁴⁾	3,085,210
Change in control without termination	-0-	-0-	-0-
Death or Disability	531,250 ⁽²⁾	1,348,418 ⁽⁵⁾	1,879,668
Involuntary or good reason termination within 2 years CIC	2,314,917	1,984,695 ⁽³⁾	4,299,612
Austin W. Miller			
Involuntary or good reason termination	453,654	1,164,732 ⁽⁴⁾	1,618,386
Change in control without termination	-0-	-0-	-0-
Death or Disability	241,993 ⁽²⁾	1,164,732 ⁽⁵⁾	1,406,725
Involuntary or good reason termination within 2 years CIC	453,654	1,361,673 ⁽³⁾	1,815,327

- (1) Represents the market value as of December 31, 2018 of stock awards accelerated or continued in each scenario. For purposes of this disclosure, market value is determined using the split-adjusted December 31, 2018 closing price of CHDN of approximately \$81.3133 per share.
- (2) Represents the pro rata bonus for the year of death or disability based on the target bonus the executive was eligible to receive for that year.
- (3) Represents one hundred percent (100%) of all unvested restricted stock awards, RSU and PSU awards (based on to-date performance as of the termination date) granted under the 2007 Omnibus Stock Incentive Plan, 2016 Omnibus Stock Incentive Plan, and the ELTI Plan.
- (4) Represents (i) continued vesting of all unvested RSUs as of the termination date, plus (ii) continued vesting of all PSUs based on performance through the entire performance period, pro-rated for the time the NEO was employed during that performance period. For purposes of this table, all PSUs values are based on target performance.
- (5) Represents (i) accelerated vesting of all unvested RSUs as of the termination date, plus (ii) continued vesting of all PSUs based on performance through the entire performance period, pro-rated for the time the NEO was employed during that performance period. For purposes of this table, all PSUs values are based on target performance.

Non-Solicit Provisions

Mr. Carstanjen, Mr. Mudd and Ms. Dall (the “Key Executives”) each entered into an Executive Change in Control, Severance and Indemnity Agreement (the “Change in Control Agreements”) with the Company, replacing all previously executed employment agreements, if any, which were mutually terminated by the Company and each Key Executive. Pursuant to each of these agreements, each Key Executive is subject to a two-year non-solicitation period after the termination of their employment with the Company for any reason, during which they may not solicit any employee of the Company to leave employment with the Company or solicit any customer of the Company for the purpose of engaging in business with them that competes with the business engaged in by the Company.

Severance Benefits

The Change in Control Agreements, executed by the Key Executives, provide for the following principal severance provisions upon termination by the Company without cause or by the executive upon constructive termination or for good reason (as defined in each agreement):

Mr. Carstanjen and Mr. Mudd. The Change in Control Agreement executed by Mr. Carstanjen and Mr. Mudd in 2018 provides that, upon termination by the Company without cause or by the executive upon constructive termination or for good reason, the executive will be entitled to receive (a) an amount in cash equal to, in the case of Mr. Carstanjen, 2 times and, in the case of Mr. Mudd, 1.5 times the sum of (x) the executive’s annual base salary and (y) the amount of the executive’s annual target bonus for the year in which the Executive was terminated, (b) a lump sum amount equal to the prorated in-cycle bonus of executive’s target bonus for the year in which the executive’s termination of employment occurs; (c) treatment of all equity-based awards per the terms of the applicable plan, award or agreement; and (d) a lump sum cash payment equal to the total premiums for medical, dental and vision benefits for a three-month period.

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

Mr. Miller. Mr. Miller has not executed a Change in Control Agreement, so Mr. Miller’s severance benefits would be governed by the Company’s Executive Severance Policy. Per that policy, upon termination by the Company as a result of an elimination of his position or duties, Mr. Miller will be entitled to receive (a) three (3) weeks of salary per year of service, up to a limit of 26 weeks (which Mr. Miller has reached); (b) a transition allowance of \$10,000; (c) earned but unpaid incentive plan bonuses; (d) a prorated target bonus for the year of termination; (e) any accrued but unpaid salary and accrued but unused personal time off; and (f) treatment of all equity-based awards per the terms of the applicable plan, award or agreement.

Mr. Thelen. As part of the Separation Agreement and Release entered into on January 9, 2018 by and among the Company, Big Fish, and Paul Thelen, Mr. Thelen became entitled to the following severance benefits: (a) twelve months of salary continuation, equal to \$424,360 in the aggregate; (b) twelve months of COBRA subsidy, equal to \$23,820 in the aggregate; and (c) Mr. Thelen’s target bonus for the 2017 fiscal year under the Churchill Downs Incorporated Executive Annual Incentive Plan, equal to a gross amount of \$339,448. The Company also terminated Mr. Thelen’s RSU agreements and PSU agreements and paid out 67,431 shares to Mr. Thelen as of the Closing Date (equal to \$5,364,136 based on the Company’s closing stock price of \$79.55 on the date of Mr. Thelen’s separation), less 26,517 shares withheld for taxes.

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

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

PAY RATIO DISCLOSURE

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are providing the following disclosure about the relationship of the annual total compensation of our employees to the annual total compensation of Mr. Carstanjen, our Chief Executive Officer. To understand this disclosure, we think it is important to give context to our operations. Our business is seasonal and relies heavily on seasonal, part-time and hourly workers. In addition, our gaming business operation also employs many part time hourly employees. In total, approximately 78.5% of our workforce is hourly employees.

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

Identification of Median Employee

In 2017, we selected December 15, 2017 as the date to identify our median employee. For 2018, we elected to use December 21, 2018 as the date on which to determine our median employee. This date was chosen because it followed the closing and administrative processing of the 2018 fall race meets at both Churchill Downs Racetrack and Arlington Park Racecourse, so seasonal employees utilized only during the race meets (i.e., not during the majority of the year) and not viewed as representative of our general employee base were no longer on the payroll. As of December 21, 2018, we had approximately 4,075 employees. For purposes of identifying the median employee, we ran a report for all year-to-date taxable compensation for employees as of the selection date, and sorted by the total compensation.

Using this methodology, we determined our median employee was a full-time, hourly employee with an annual total compensation of \$22,960. In determining the annual total compensation of the median employee, we calculated such employee's compensation in accordance with Item 402(c)(2)(x) of Regulation S-K as required pursuant to SEC executive compensation disclosure rules. This calculation is the same calculation used to determine total compensation for purposes of the 2018 Summary Compensation Table with respect to each of the named executive officers.

CEO Total Compensation

As described in the Compensation Discussion and Analysis section, on October 30, 2018, Mr. Carstanjen received a 7-Year Grant comprised of RSUs and PSUs that will not begin to vest until the fourth anniversary of the grant date (October 30, 2022) and will not fully vest until the seventh anniversary of the grant date (October 30, 2025). Approximately 67% of the 7-Year Grant was in the form of PSUs (127,587 PSUs valued at \$8,040,107 based on a Monte Carlo valuation on October 30, 2018) that are based on relative total shareholder return for the 3-year performance period of October 30, 2018 through October 29, 2021. If earned, these PSUs will vest in 25% annual increments over four years beginning on the fourth anniversary of the grant date, totaling seven years to be fully vested, assuming continued employment.

The remaining 33% of the 7-Year Grant is in the form of time-based restricted shares (48,711 RSUs with a grant date fair value of \$3,960,204) that will vest in 25% annual increments over four years beginning on the fourth anniversary of the grant date, totaling seven years to be fully vested, assuming continued employment.

For purposes of the Pay Ratio, Mr. Carstanjen's annual total compensation is presented in the table below with and without the 7-Year Grant. We are providing a supplemental Pay Ratio excluding the 7-Year Grant as that grant is not viewed as representative our annual compensation program. The Pay Ratio calculated excluding the 7-Year Grant should not be viewed as a substitute for the Pay Ratio calculated based on the Total Compensation reported in the 2018 Summary Compensation Table.

Ratio (2018)

	Summary Compensation Table Total (Including 7-Year Grant)	Excluding 7-Year Grant
Median Annual Total Compensation (excluding CEO)	\$ 22,960	\$ 22,960
CEO Annual Total Compensation	\$21,120,369	\$9,120,058
Pay Ratio	920 to 1	397 to 1

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

EQUITY COMPENSATION PLAN INFORMATION⁽¹⁾

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders ⁽²⁾	541,428 ⁽³⁾⁽⁴⁾	-0-	2,145,841 ⁽⁵⁾
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	541,428	-0-	2,145,841

- (1) This table provides information, as of December 31, 2018, about CHDN Common Stock that may be issued upon the exercise of options and settlement of other equity awards under all compensation plans under which equity securities are reserved for issuance.
- (2) The equity compensation plans of the Company which have been approved by the shareholders of the Company and pursuant to which equity securities are authorized for issuance are the Churchill Downs Incorporated 2000 Employee Stock Purchase Plan ("Stock Purchase Plan") and the Churchill Downs Incorporated 2016 Omnibus Stock Incentive Plan ("2016 Plan").
- (3) Includes 321,657 PSUs and 219,771 RSUs that were outstanding on December 31, 2018 under the 2016 Plan. For purposes of this table, we have included the number of shares issuable under outstanding PSUs assuming performance targets are achieved. Please see the "Compensation Discussion and Analysis" section of this Proxy Statement for further information regarding the 2018 PSUs, including performance metrics applicable to such awards.
- (4) Because each participant in the Stock Purchase Plan has one option each plan year and that option consists of the number of shares which can be purchased, through exercise, at the end of the plan year using compensation deductions made throughout the plan year, no outstanding options, warrants or rights for a specific number of the Company's securities to be issued upon exercise existed at December 31, 2018 and, therefore, none are included in this total for the Stock Purchase Plan.
- (5) Of this total, as of December 31, 2018, 620,835 shares of Common Stock of the Company remained available for future issuance under the Stock Purchase Plan and 1,525,006 shares of Common Stock of the Company remained available for future issuance under the 2016 Plan. Stock awards under the 2016 Plan will be counted against the maximum number of shares as to which stock awards may be granted on a ratio of 1-to-1.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

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

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

Other than as described above, since January 1, 2018, no transaction was identified as a related party transaction.

CHURCHILL DOWNS INCORPORATED AUDIT COMMITTEE REPORT

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

The Committee has an Audit Committee Charter (the "Charter"), which was amended, restated and approved by the Board on February 26, 2019. The Charter sets forth certain responsibilities of the Committee, which include oversight of the integrity of the financial statements of the Company, the systems of internal controls over financial reporting which management has established, the independence and performance of the Company's internal and independent auditors, the Company's compliance with financial, accounting, legal and regulatory requirements, and the effectiveness of the Enterprise Risk Management ("ERM") function. The Committee reviews the work of the Company's management, the internal audit staff and the independent auditors on behalf of the Board.

Specifically, the Committee:

- Met four (4) times during the year, during which the Committee reviewed and discussed with management and the independent auditors the Company's interim and annual financial statements for 2018; at each of such meetings, the Committee met in executive session with the Company's General Counsel, along with the Vice President of Internal Audit.
- Discussed with the independent auditors all matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board and the SEC.
- Received the written disclosures and letters from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board, regarding the independent auditors' communications with the Audit Committee concerning independence, and discussed with the independent auditors the independent auditors' independence.
- Based on the review and discussions referred to in the first three bullets above, the Committee recommended to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.
- Reviewed and discussed reports from the Company's internal audit department and reports from the Company's legal department.
- Discussed with management and the independent auditors the quality of the Company's internal controls.
- Reviewed and approved all related person transactions, if any.
- Self-evaluated the effectiveness of the Committee.
- Evaluated the effectiveness of the Company's internal audit function.
- Inquired of management, including its internal auditor, and the Company's independent auditors regarding significant risks or exposures, including those related to fraudulent activities, facing the Company; assessed the steps management has taken or proposes to take to minimize such risks to the Company and reviewed compliance with such steps.
- Reviewed and approved the 2018 audit and non-audit services and related fees provided by the independent auditors, PricewaterhouseCoopers LLP ("PwC"). The non-audit services approved by the Audit Committee were also reviewed to ensure compatibility with maintaining the auditor's independence.
- In February 2018, the Committee selected PwC to be reappointed as independent auditors for the calendar year 2018. The Committee also reviewed and pre-approved the 2019 audit fees for services related to the first quarter Form 10-Q review.

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

Members of the Audit Committee

Daniel P. Harrington, *Chairman*

Ulysses L. Bridgeman, Jr.

Karole F. Lloyd

R. Alex Rankin

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires that the Company's directors, executive officers and persons who beneficially own more than ten percent (10%) of the Company's Common Stock file certain reports with the SEC with regard to their beneficial ownership of the Common Stock. The Company is required to disclose in this Proxy Statement any failure to file or late filings of such reports. Based solely on our review of the forms filed with the SEC or written representations from certain reporting persons received by us, we believe that our directors, officers and persons who own more than ten percent (10%) of the Company's Common Stock have complied with all applicable filing requirements, other than with respect to the following late filings of Forms 4: (i) on behalf of William C. Carstanjen reporting one instance of a restricted stock unit award; (ii) on behalf of William E. Mudd reporting one instance of a restricted stock unit award; and (iii) on behalf of Marcia A. Dall reporting one instance of a restricted stock unit award.

MULTIPLE SHAREHOLDERS SHARING THE SAME ADDRESS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements with respect to two or more shareholders sharing the same address by delivering a single Proxy Statement or Notice addressed to those shareholders. This process, which is commonly referred to as “householding,” potentially means extra convenience for shareholders and cost savings for companies.

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

PROPOSALS BY SHAREHOLDERS

Any shareholder proposal that may be included in the Board of Directors' Proxy Statement and proxy for presentation at the annual meeting of shareholders to be held in 2020 must be received by the Company at the principal executive office at 600 N. Hurstbourne Parkway, Ste. 400, Louisville, Kentucky 40222, Attention of the Secretary, no later than November 14, 2019. Pursuant to the Company's Amended and Restated Bylaws, proposals of shareholders intended to be presented at the Company's 2020 annual meeting of shareholders, but not included in the Proxy Statement, must be received by the Company at the principal executive offices of the Company not less than 90 nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of shareholders. Accordingly, any shareholder proposals intended to be presented at the 2020 annual meeting of shareholders of the Company must be received in writing by the Company at its principal executive offices no later than January 24, 2020, and no sooner than December 25, 2019. Any proposal submitted before or after those dates will be considered untimely, and the Chairman shall declare that the business is not properly brought before the meeting and such business shall not be transacted at the annual meeting.

By Order of the Board of Directors

R. ALEX RANKIN

Chairman

BRADLEY K. BLACKWELL

Senior Vice President,

General Counsel and Secretary

Louisville, Kentucky
March 13, 2019

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

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

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

For the fiscal year ended December 31, 2018
OR

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

For the transition period from _____ to _____
Commission file number 001-33998

CHURCHILL DOWNS
INCORPORATED

(Exact name of registrant as specified in its charter)

Kentucky
(State or other jurisdiction of incorporation or organization)

61-0156015
(IRS Employer Identification No.)

600 North Hurstbourne Parkway, Suite 400
Louisville, Kentucky 40222
(Address of principal executive offices) (zip code)

(502) 636-4400
(Registrant's telephone number, including area code)

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

Common Stock, No Par Value
(Title of each class registered)

The Nasdaq Stock Market LLC
(Name of each exchange on which registered)

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

None
(Title of class)

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

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

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of February 11, 2019, 40,284,299 shares of the Registrant's Common Stock were outstanding. As of June 30, 2018 (based upon the closing sale price for such date on the Nasdaq Global Select Market), the aggregate market value of the shares held by non-affiliates of the Registrant was \$3,470,235,704.

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held on April 23, 2019 are incorporated by reference herein in response to Items 10, 11, 12, 13 and 14 of Part III of Form 10-K. This Form 10-K filing includes 108 pages, which includes an exhibit index on pages 103-105.

CHURCHILL DOWNS INCORPORATED
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For the Year Ended December 31, 2018

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Cautionary Statement Regarding Forward-Looking Information

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

PART I

ITEM 1. BUSINESS

A. Introduction

Churchill Downs Incorporated (the "Company", "we", "us", "our") is an industry-leading racing, gaming and online entertainment company anchored by our iconic flagship event - *The Kentucky Derby*. We own and operate the largest legal online horseracing wagering platform in the U.S., through our TwinSpires business. We are a leader in brick-and-mortar casino gaming with approximately 9,500 gaming positions in seven states, after the Presque Isle Transaction (as defined below) closed on January 11, 2019. In August 2018, we launched our retail BetAmerica Sportsbook at our two Mississippi casino properties and have announced plans to enter additional U.S. sports betting and iGaming markets. We opened Derby City Gaming, the first historical racing machine ("HRM") facility in Louisville, Kentucky, in September 2018 with 900 HRM machines. We were organized as a Kentucky corporation in 1928, and our principal executive offices are located in Louisville, Kentucky.

Sale of Big Fish Games, Inc.

On November 29, 2017, the Company entered into a definitive Stock Purchase Agreement (the "Stock Purchase Agreement") to sell its mobile gaming subsidiary, Big Fish Games, Inc. ("Big Fish Games"), a Washington corporation, to Aristocrat Technologies, Inc. (the "Purchaser"), a Nevada corporation, an indirect, wholly owned subsidiary of Aristocrat Leisure Limited ("Aristocrat"), an Australian corporation (the "Big Fish Transaction"). On January 9, 2018, pursuant to the Stock Purchase Agreement, the Company completed the Big Fish Transaction. The Purchaser paid an aggregate consideration of \$990.0 million in cash in connection with the Big Fish Transaction, subject to customary adjustments for working capital and indebtedness and certain other adjustments as set forth in the Stock Purchase Agreement. As described in further detail in Part II, Item 8. Financial Statements and Supplementary Data, the Company has presented Big Fish Games as held for sale and discontinued operations in the accompanying consolidated financial statements and related notes.

Acquisition of Presque Isle and Pending Acquisition of Lady Luck Nemacolin

On February 28, 2018, the Company entered into two separate definitive asset purchase agreements with Eldorado Resorts, Inc. ("ERI") to acquire substantially all of the assets and properties used in connection with the operation of Presque Isle Downs & Casino ("Presque Isle") in Erie, Pennsylvania (the "Presque Isle Transaction"), and Lady Luck Casino in Vicksburg, Mississippi (the "Lady Luck Vicksburg Transaction") for total aggregate consideration of approximately \$229.5 million, to be paid in cash, subject to certain working capital and other purchase price adjustments.

On July 6, 2018, the Company and ERI mutually agreed to terminate the asset purchase agreement with respect to the Lady Luck Vicksburg Transaction (the "Termination Agreement"). Concurrently with the entry into the Termination Agreement, the Company and ERI also entered into an amendment to the previously announced asset purchase agreement relating to the Presque Isle Transaction (the "Amendment"). Pursuant to the Amendment, the Company and ERI agreed to, among other things, cooperate in good faith, subject to certain conditions, to enter into an agreement pursuant to which the Company, for cash consideration of \$100,000, will receive certain assets and assume the rights and obligations of an affiliate of ERI to operate the Lady Luck Casino Nemacolin in Farmington, Pennsylvania (the "Lady Luck Nemacolin Transaction"). The Presque Isle Transaction reflects a stand-alone purchase price of \$178.9 million. Closing of the Presque Isle Transaction was also conditioned on the execution of the definitive agreement with respect to the Lady Luck Nemacolin Transaction, which occurred on August 10, 2018 (the "Lady Luck Nemacolin Agreement").

On January 11, 2019, the Company completed the Presque Isle Transaction. Subject to receipt of Pennsylvania regulatory approvals and other customary closing conditions, the Lady Luck Nemacolin Transaction is expected to close in the first half of 2019.

Ocean Downs/Saratoga Transaction

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

As part of the Ocean Downs/Saratoga Transaction, Saratoga Harness Racing, Inc. ("SHRI") agreed to grant the Company and its affiliates exclusive rights to operate online sports betting and iGaming on behalf of SHRI in New York and Colorado for a period of fifteen years from the date of the Liquidation Agreement, should such states permit SHRI to engage in sports betting and iGaming, subject to payment of commercially reasonable royalties to SHRI. Refer to Part II, Item 8. Financial Statements and Supplementary Data, for further information on the Ocean Downs/Saratoga Transaction.

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

On October 31, 2018, the Company announced that it had entered into a definitive purchase agreement pursuant to which the Company will acquire certain ownership interests of Midwest Gaming Holdings, LLC ("Midwest Gaming"), the parent company of Rivers Casino Des Plaines in Des Plaines, Illinois ("Rivers Des Plaines"), for cash (the "Sale Transaction").

The Sale Transaction will be comprised of (i) the Company's purchase of 100% of the ownership stake in Midwest Gaming held by affiliates and co-investors of Clairvest Group Inc. ("Clairvest") for approximately \$291.0 million and (ii) the Company's offer to purchase, on the same terms, additional units of Midwest Gaming held by High Plains Gaming, LLC ("High Plains"), an affiliate of Rush Street Gaming, LLC, and Casino Investors, LLC ("Casino Investors").

Following the closing of the Sale Transaction, the parties expect to enter into a recapitalization transaction pursuant to which Midwest Gaming will use approximately \$300.0 million in proceeds from new credit facilities to redeem, on a pro rata basis, additional Midwest Gaming units held by High Plains and Casino Investors (the "Recapitalization" and together with the Sale Transaction, the "Transactions").

Based on the results of the purchase of the Clairvest ownership stake and the purchase, on the same terms, of additional units held by High Plains and Casino Investors, the Company will acquire, at the closing of the Sale Transaction, approximately 42% of Midwest Gaming for aggregate cash consideration of approximately \$407.0 million. As a result of the Recapitalization, the Company's ownership of Midwest Gaming will increase to approximately 62%.

The Transactions are dependent on usual and customary closing conditions, including securing approval from the Illinois Gaming Board. The Transactions are expected to close in the first half of 2019.

Stock Split

On October 31, 2018, the Company announced a three-for-one split (the "Stock Split") of the Company's common stock for shareholders of record as of January 11, 2019. The additional shares resulting from the Stock Split were distributed on January 25, 2019. Our common stock began trading at the split-adjusted price on January 28, 2019. All share and per-share amounts in the Company's consolidated financial statements and related notes in Part II, Item 8. Financial Statements and Supplementary Data, have been retroactively adjusted to reflect the effects of the Stock Split.

B. Business Segments

During 2018, we managed our operations through five segments: Racing, Online Wagering, Casino, Other Investments and Corporate. In the fourth quarter of 2018, we changed our TwinSpires segment name to Online Wagering as we continue to expand our online sports betting and iGaming platforms. As a result of the Big Fish Transaction, our Big Fish Games segment is now included as a discontinued operation. Financial information about these segments is set forth in Item 8. Financial Statements and Supplementary Data, Note 20 of Notes to Consolidated Financial Statements contained within this Report. Further discussion of financial results by operating segment is provided in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations contained within this Report.

Racing Segment

Our Racing segment includes our four racetracks: Churchill Downs Racetrack ("Churchill Downs"), Arlington International Race Course ("Arlington"), Fair Grounds Race Course ("Fair Grounds") and Calder Race Course ("Calder Racing"). We conduct live horseracing at Churchill Downs, Arlington and Fair Grounds. On July 1, 2014, we entered into a racing services agreement with The Stronach Group ("TSG") to allow Gulfstream Park to manage and operate Calder Racing through December 31, 2020.

Our racing revenue includes commissions on pari-mutuel wagering at our racetracks and off-track betting facilities ("OTBs") plus simulcast host fees earned from other wagering sites. In addition, ancillary revenue generated by the pari-mutuel facilities includes admissions, sponsorships and television rights, and food and beverage sales. Racing revenue and income are influenced by our racing calendar. Racing dates are generally approved annually by the respective state racing authorities. The majority of our live racing revenue occurs during the second quarter with the running of the Kentucky Oaks and Kentucky Derby at Churchill Downs. Therefore, racing revenue and operating results for any interim quarter are not generally indicative of the revenue and operating results for the year.

Churchill Downs, Arlington and its twelve OTBs in Illinois, and Fair Grounds and its fourteen OTBs in Louisiana, all offer year-round simulcast wagering. The OTBs accept wagers on races at the respective racetrack or on races simulcast from other locations. We generate a significant portion of our pari-mutuel wagering revenue by sending signals of races from our racetracks to other facilities and businesses ("export") and receiving signals from other racetracks ("import").

Churchill Downs

Churchill Downs is located in Louisville, Kentucky and is an internationally known thoroughbred racing operation best known as the home of our iconic flagship event - *The Kentucky Derby*. We have conducted thoroughbred racing continuously at Churchill Downs since 1875. *The Kentucky Derby* is the longest continuously held annual sporting event in the United States and is the first race of the annual series of races for 3-year old thoroughbreds known as the Triple Crown. Our history of increased wagering, along with solid attendance and television viewership is attractive to presenting sponsors and contributed to the ninth consecutive year of earnings growth in 2018. We conducted 70 live race days in 2016, 2017 and 2018. In 2019, we anticipate having up to 75 live race days. The Kentucky Horse Racing Commission ("KHRC") awarded us 6 additional optional dates for 2019 that we may elect to run.

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

The Churchill Downs facility consists of approximately 175 acres of land with a one-mile dirt track, a seven-eighths (7/8) mile turf track, a grandstand, luxury suites and a stabling area, and approximately 83 acres of land at our auxiliary training facility which includes Derby City Gaming. The Churchill Downs facility accommodates seating for approximately 59,000 patrons in our clubhouse, grandstand, Jockey Club Suites, Starting Gate Suites, Finish Line Suites, Turf Club, Grandstand Terrace, Rooftop Garden and Mansion. We have a saddling paddock, accommodations for groups and special events and parking areas for the public. Our racetrack also has permanent lighting in order to accommodate night races. The stable area has barns sufficient to accommodate approximately 1,400 horses and a 114-room dormitory for backstretch personnel. The Churchill Downs facility also includes a simulcast wagering facility.

During the second quarter of 2016, we finalized our \$18.0 million renovation of the Turf Club and other premium areas. The Turf Club is an exclusive, members-only lounge and dining room located in the clubhouse section of Churchill Downs, directly overlooking the racetrack's finish line.

During the second quarter of 2017, we completed our \$16.0 million renovation to modernize 95,000 square feet of the second floor clubhouse. The second floor clubhouse now features more than 280 flat-screen televisions, three new themed bars, 60 wagering windows and 40 self-serve betting machines.

During the second quarter of 2018, we completed our \$37.0 million Starting Gate Suites addition, delivering more than 1,800 new seats through the addition of 36 new luxury starting gate suites and interior dining tables.

During the second quarter of 2018, we finalized the first phase of our \$32.0 million project to improve the parking and transportation experience for guests, which featured a significantly enlarged, highly-efficient bus depot and additional transportation infrastructure that enhanced the overall traffic and parking flow for our guests. The second phase was completed prior to Churchill Downs hosting the Breeders' Cup World Championships in November 2018.

We also provide additional stabling and training facilities sufficient to accommodate 500 horses and a three-quarter (3/4) mile dirt track approximately five miles from the racetrack facility at the site of Derby City Gaming.

Arlington

The Arlington racetrack is located in Arlington Heights, Illinois and is a thoroughbred racing operation with twelve OTBs. We conducted 74 live race days in 2016, 71 in 2017 and 71 in 2018. We anticipate having 71 live race days in 2019.

The Arlington racetrack sits on 336 acres, has a one and one-eighth (1 1/8) mile synthetic track, a one-mile turf track and a five-eighths (5/8) mile training track. The facility includes a clubhouse, grandstand and suite seating for approximately 7,500 persons, and food and beverage facilities. The stable area consists of barns that can accommodate approximately 2,200 horses and living quarters for approximately 550 people.

Fair Grounds

The Fair Grounds racetrack is located in New Orleans, Louisiana and is a racing operation with fourteen OTBs in Louisiana. We conducted 78 thoroughbred live race days in 2016, 83 in 2017 and 82 in 2018. We anticipate having 81 thoroughbred live race days in 2019. We conducted 10 quarter horse live race days in each of 2016, 2017 and 2018. We anticipate having 10 quarter horse live race days in 2019.

The Fair Grounds facility consists of approximately 145 acres of land, a one-mile dirt track, a seven-eighths (7/8) mile turf track, a grandstand and a stabling area. The facility includes clubhouse and grandstand seating for approximately 5,000 persons, a general admissions area and food and beverage facilities. The stable area consists of barns that can accommodate approximately 1,900 horses and living quarters for approximately 130 people.

Calder Racing

Calder Racing is located in Miami Gardens, Florida and is near Hard Rock Stadium, home of the Miami Dolphins. Calder Racing is a thoroughbred racing facility that consists of approximately 170 acres of land with a one-mile dirt track, 7/8-mile turf track, barns and stabling facilities.

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

On November 8, 2016, we completed the sale of 61 acres of excess, undeveloped land at Calder Racing for which we received total proceeds of \$25.6 million.

Online Wagering Segment

Our Online Wagering segment includes our TwinSpires business ("TwinSpires") and our online sports betting and iGaming business.

TwinSpires Business

TwinSpires includes TwinSpires.com, Fair Grounds Account Wagering ("FAW"), Velocity, and Bloodstock Research Information Services ("BRIS"). On April 24, 2017, we acquired certain assets of BAM Software and Services, LLC ("BetAmerica"), which is also included in TwinSpires. BetAmerica is an online wagering business licensed under TwinSpires.com, and offers wagering on horseracing throughout the U.S, as well as our brand for retail and online sports betting.

TwinSpires is headquartered in Louisville, Kentucky and operates our online horseracing wagering business. We are the largest legal online horseracing wagering platform in the U.S. TwinSpires accepts pari-mutuel wagers through advance deposit wagering ("ADW") from customers residing in certain states who establish and fund an account from which they may place wagers via telephone, mobile device or through the Internet. Our business is licensed as a multi-jurisdictional simulcasting and interactive wagering hub in the state of Oregon. We offer our customers streaming video of live horse races, as well as replays, and an assortment of racing and handicapping information. We also provide technology services to third parties, and we earn commissions from white label ADW products and services. Under these arrangements, we typically provide an ADW platform and related operational services while the third party typically provides a brand name, marketing and limited customer functions.

In the state of Louisiana, Fair Grounds Race Course, through an agreement with TwinSpires.com, operates our FAW platform, which is our online wagering platform licensed for Louisiana residents.

TwinSpires has a small number of customers focused on high dollar wagering that utilize the TwinSpires.com Oregon license. These customers are managed and tracked separately as a group called Velocity ("Velocity").

BRIS is a data service provider with one of the world's largest computerized databases of handicapping and pedigree information for the thoroughbred horse industry. We provide special reports, statistical information, handicapping information, pedigrees and other data through our websites Brisnet.com and TwinSpires.com.

FAW, Velocity and BRIS are not material to the Company.

Sports Betting and iGaming

In May 2018, the Company announced its entry into online sports betting and iGaming. The Company also announced a strategic partnership agreement with SBTech to utilize its integrated technology platform for the Company's sports betting and iGaming operations. Also in May 2018, the Company entered into an agreement with Golden Nugget to enter the New Jersey sports betting and iGaming markets.

In August 2018, the Company launched its inaugural retail sportsbook under the BetAmerica brand in its two brick-and-mortar casinos in Mississippi, which is included in our Casino segment. In February 2019, the Company launched its inaugural online sportsbook and casino gaming platform in New Jersey. The Company intends to utilize the BetAmerica brand in additional states in the future for retail and online sportsbook and iGaming platforms. Our customers will have the opportunity to bet on major professional sports including the NFL, NBA, NHL, MLB and collegiate sports, as well as sporting events happening all over the world. We have announced plans to enter additional U.S. sports betting and iGaming markets as states approve legislation and regulations legalizing sports betting and iGaming.

Casino Segment

We are also a provider of brick-and-mortar casino gaming with approximately 9,500 gaming positions located in seven states. We own seven casinos (Oxford Casino, Riverwalk Casino, Harlow's Casino, Calder Casino, Ocean Downs, Fair Grounds Slots and

Video Services, LLC, and Presque Isle) and three hotels (Oxford, Riverwalk and Harlow's). In addition, we have a 50% equity investment in Miami Valley Gaming, LLC ("MVG").

In August 2018, we launched our retail BetAmerica Sportsbook at our two Mississippi casino properties, which added sports betting revenue to our Casino segment.

On August 31, 2018, the Company completed the Ocean Downs/Saratoga Transaction. As described in further detail in Item 8. Financial Statements and Supplementary Data, the Company consolidated Ocean Downs as of the closing date, and no longer has an equity interest or management involvement in Saratoga New York or Saratoga Colorado.

On January 11, 2019, we completed the Presque Isle Transaction.

Our Casino revenue is primarily generated from slot machines, video lottery terminals ("VLTs"), video poker, and table games, while ancillary revenue includes hotel, food, beverage, and other sales.

Oxford

Our Oxford Casino ("Oxford") is located in Oxford, Maine. Oxford is a 27,000 square-foot casino with approximately 940 slot machines, 30 table games and two dining facilities on approximately 97 acres of land.

During the fourth quarter of 2017, we opened a new attached \$25.0 million hotel at Oxford, featuring over 100 new guest rooms and suites, as well as additional dining options, and an expanded gaming floor.

Calder

Our Calder Casino ("Calder") is located in Miami Gardens, Florida near Hard Rock Stadium, home of the Miami Dolphins. Calder is a 106,000 square-foot facility with approximately 1,150 slot machines and two dining facilities on a single-level.

In February 2018, Calder was issued a jai alai permit by the Department of Business & Professional Regulation ("DBPR") Division of Pari-Mutuel Wagering in Florida. In May 2018, Calder received a jai alai license to conduct live summer jai alai performances in May and June 2019 for the State of Florida's 2018-2019 fiscal year. We have initiated the construction of a jai alai facility.

In October 2018, the State of Florida DPW issued two separate Final Orders Granting Declaratory Statement in response to two separate Petitions for Declaratory Statements submitted by Calder Race Course, Inc. regarding jai alai.

The Florida Horsemen's Benevolent and Protective Association, Inc. has filed two administrative challenges in Florida related to jai alai and one lawsuit against Calder and DBPR seeking declaratory relief for Division actions related to the issuance of Calder's jai alai permit.

Fair Grounds Slots and Video Services, LLC

Fair Grounds Slots is located in New Orleans, Louisiana adjacent to Fair Grounds Race Course. Fair Grounds Slots is a 33,000 square-foot slot facility that operates approximately 620 slot machines with two concession areas, a bar, a simulcast facility and other amenities for slots and pari-mutuel wagering patrons. Video Services, LLC ("VSI") is the owner and operator of approximately 940 video poker machines in twelve OTBs in Louisiana.

Riverwalk

Our Riverwalk Casino ("Riverwalk") is located in Vicksburg, Mississippi. Riverwalk is a 25,000 square-foot casino with approximately 650 slot machines, 16 table games, a retail BetAmerica Sportsbook, a five-story 80-room attached hotel, and two dining facilities on approximately 22 acres of land.

Harlow's

Our Harlow's Casino ("Harlow's") is located in Greenville, Mississippi. Harlow's is a 33,000 square-foot casino with approximately 730 slot machines, 15 table games, a retail BetAmerica Sportsbook, a 105-room attached hotel, a 5,600 square-foot multi-functional event center, and four dining facilities. Harlow's is located on approximately 85 acres of leased land adjacent to U.S. Highway 82 in Greenville, Mississippi.

Ocean Downs

Ocean Downs, located on 167 acres of land near Ocean City, Maryland, owns and operates VLTs and table games at Ocean Downs Casino and conducts harness racing at Ocean Downs Racetrack. Ocean Downs Casino added 92 VLTs and 10 table games in December 2017, and in the second quarter of 2018, Ocean Downs Casino added 8 additional table games. Ocean Downs Casino currently has approximately 900 VLTs, 18 table games and three dining facilities.

Presque Isle

We completed the Presque Isle Transaction on January 11, 2019. Presque Isle is located on 270 acres of land in Erie, Pennsylvania. Presque Isle operates approximately 1,600 slots, 32 table games, a poker room, four dining facilities, and conducts thoroughbred racing.

Miami Valley Gaming Equity Investment

We have a 50% equity investment in MVG which owns a VLT facility and harness racetrack on 120 acres in Lebanon, Ohio, which opened in December 2013. MVG is a 186,000 square-foot facility with approximately 1,870 VLTs, a racing simulcast center, a 5/8-mile harness racetrack and four dining facilities.

Other Investments Segment

Our Other Investments Segment includes United Tote Company ("United Tote"), Derby City Gaming and our other minor investments.

United Tote

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

Derby City Gaming

In September 2018, we opened Derby City Gaming, our 85,000 square-foot, state-of-the-art HRM facility at our Churchill Downs auxiliary training facility in Louisville, Kentucky. Derby City Gaming operates under our Churchill Downs pari-mutuel racing license, and currently has 900 HRM machines in service, a simulcast center and a dining facility. We plan to add 100 additional HRM machines to this location in 2019 and have approval for up to 2,000 HRM machines under this license.

Oak Grove Facility

In November 2018, WKY Development, LLC, a joint venture between the Company and Keeneland Association, Inc. ("Keeneland"), was awarded a racing license by the Kentucky Horse Racing Commission ("KHRC") for twelve live Standardbred racing dates beginning in October 2019 at its racing facility to be constructed in Oak Grove, Kentucky. The racing facility in Oak Grove will include a HRM facility featuring up to 1,500 machines, a 125-room hotel with event center and food/beverage venues, a 1,200-person seated capacity grandstand and event space for indoor events, a 3,000-person capacity outdoor amphitheater and stage, and a state-of-the-art equestrian center including an indoor arena and outdoor uncovered warm up areas. WKY Development, LLC is owned 95% by the Company and 5% by Keeneland.

Corporate Segment

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

Big Fish Games Segment

On November 29, 2017, we entered into the Stock Purchase Agreement to sell Big Fish Games to the Purchaser. On January 9, 2018, we closed the Big Fish Transaction, at which time Big Fish Games ceased to be an operating segment of the Company.

C. Competition

Overview

We operate in a highly competitive industry with a large number of participants, some of which have financial and other resources that are greater than ours. The industry faces competition from a variety of sources for discretionary consumer spending, including spectator sports, fantasy sports and other entertainment and gaming options. Additionally, our brick-and-mortar casinos compete with traditional and Native American casinos, video lottery terminals, state-sponsored lotteries and other forms of legalized gaming in the U.S. and other jurisdictions.

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

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

Racing

In 2018, approximately 37,000 thoroughbred horse races were conducted in the United States. Of these races, we hosted approximately 2,220 races, or 6.0% of the total. As a content provider, we compete for wagering dollars in the simulcast market with other racetracks conducting races at or near the same times as our races. As a racetrack operator, we also compete for horses with other racetracks running live racing meets at or near the same time as our races. Our ability to compete is substantially dependent on the racing calendar, number of horses racing and purse sizes. In recent years, competition has increased as more states legalize gaming and allow slot machines at racetracks with mandatory purse contributions.

Online Wagering

TwinSpires

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

Sports Betting and iGaming

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

Casino

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

Other Investments

Derby City Gaming competes with regional casinos in the area and other forms of legal and illegal gaming.

D. Governmental Regulations and Potential Legislative Changes

We are subject to various federal, state and international laws and regulations that affect our businesses. The ownership, operation and management of our Racing businesses, Online Wagering businesses, Casino properties, and Other Investments are subject to regulation under the laws and regulations of each of the jurisdictions in which we operate. The ownership, operation and management of our businesses and properties are also subject to legislative actions at both the federal and state level.

Racing Regulations

Horseracing is a highly regulated industry. In the United States, individual states control the operations of racetracks located within their respective jurisdictions with the intent of, among other things, protecting the public from unfair and illegal gambling practices, generating tax revenue, licensing racetracks and operators and preventing organized crime from being involved in the industry. Although the specific form may vary, states that regulate horseracing generally do so through a horseracing commission or other gambling regulatory authority. In general, regulatory authorities perform background checks on all racetrack owners prior to granting them the necessary operating licenses. Horse owners, trainers, jockeys, drivers, stewards, judges and backstretch personnel are also subject to licensing by governmental authorities. State regulation of horse races extends to virtually every aspect of racing and usually extends to details such as the presence and placement of specific race officials, including timers, placing judges, starters and patrol judges. We currently satisfy the applicable licensing requirements of the racing and gambling regulatory authorities in each state where we maintain racetracks or pari-mutuel operations and/or businesses.

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

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

Specific State Racing Regulations and Potential Legislative Changes

Kentucky

In Kentucky, horseracing tracks are subject to the licensing and regulation of the KHRC, which is responsible for overseeing horseracing and regulating the state equine industry. Licenses to conduct live thoroughbred and Standardbred racing meets, to

participate in simulcasting, and to accept advance deposit wagers from Kentucky residents are approved annually by the KHRC based upon applications submitted by the racetracks in Kentucky.

In March of 2018, legislation was signed into law that permanently waives the excise tax on live pari-mutuel handle wagers at a Kentucky racetrack hosting the Breeders' Cup.

In November of 2018, the KHRC awarded WKY Development, LLC, which is a joint venture between the Company and Keeneland, a racing license for twelve live Standardbred race dates beginning in October 2019, at a racing facility to be constructed in Oak Grove, Kentucky.

Illinois

In Illinois, licenses to conduct live thoroughbred racing and to participate in simulcast wagering are approved by the Illinois Racing Board ("IRB"). In September 2018, the IRB appointed Arlington the dark host track in Illinois for 60 simulcast host days during 2019, which was the same amount compared to 2018. In addition, Arlington was awarded 155 live host days for 2019, which was the same amount compared to 2018. In total, Arlington was awarded 215 live and dark host days in 2019.

In July 2018, legislation was signed into law that extends the authorization of advance deposit wagering through December 31, 2022.

Florida

In Florida, licenses to conduct live thoroughbred racing and to participate in simulcast wagering are approved by the DBPR's Division of Pari-Mutuel Wagering ("DPW"). The DPW is responsible for overseeing the network of state offices located at every pari-mutuel wagering facility, as well as issuing the permits necessary to operate a pari-mutuel wagering facility. The DPW also issues annual licenses for thoroughbred, Standardbred and quarter horse races but does not approve the specific live race days.

Louisiana

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

With the addition of slot machines at Fair Grounds, Louisiana law requires live quarter horseracing to be conducted at the racetrack. We conducted quarter horseracing at Fair Grounds for 10 days in each of 2016, 2017 and 2018. We expect to conduct quarter horseracing for 10 days in 2019.

Pennsylvania

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

TwinSpires Regulations and Potential Legislative Changes

TwinSpires is licensed in Oregon under a multi-jurisdictional simulcasting and interactive wagering totalisator hub license issued by the Oregon Racing Commission and in accordance with Oregon law. We also hold advance deposit wagering licenses in certain other states where required such as California, Illinois, Idaho, Kentucky, Maryland, Virginia, Colorado, Arizona, Wyoming, Arkansas, New York and Washington. Changes in the form of new legislation or regulatory activity at the state or federal level could adversely impact our mobile and online ADW business.

Sports Betting and iGaming Regulations and Potential Legislative Changes

Federal

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

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

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

Specific State Sports Betting and iGaming Regulations and Potential Legislative Changes

Mississippi

In 2017, Mississippi provisionally allowed sports betting as part of a bill legalizing and regulating fantasy sports, subject to the reversal of the 1992 Professional and Amateur Sports Protection Act and approval by the Mississippi Gaming Commission.

In June 2018, the Mississippi Gaming Commission approved rules regulating sports betting confined to brick-and-mortar casinos located in Mississippi, which became effective in July 2018. The tax rate on gross gaming revenues for sports betting is consistent with our casino gross gaming revenues. We believe this approval will have a positive impact on our business.

New Jersey

Sports Betting

In June 2018, a bill was signed into law which authorizes sports betting at casinos, racetracks and online, and the Division of Gaming Enforcement issued regulations governing the activity. Each casino or racetrack may offer a maximum of three online sports betting websites. The initial license fee is \$100,000 with a tax of 9.75% on land-based gross betting revenue and a 14.25% tax on online gross betting revenue. In February 2019, we launched our BetAmerica online sports betting platform in New Jersey through our partnership with Golden Nugget Atlantic City Casino. We believe this legislation will have a positive impact on our business.

Online Gaming

In February 2013, legislation was signed into law that allows Atlantic City casinos to offer online casino gaming in New Jersey. The legislation provides for a \$400,000 license fee and a 17.5% tax rate on gross gaming revenues. In February 2019, we launched our BetAmerica online casino platform in New Jersey through our partnership with Golden Nugget Casino. We believe this legislation will have a positive impact on our business.

Pennsylvania

Sports Betting

In October 2017, a bill was signed into law in Pennsylvania which allows the state's existing brick-and-mortar casinos to operate retail and online sports betting after paying a \$10 million license fee. The tax rate on sports wagering is 36% of gross gaming revenue. In July 2018, the Pennsylvania Gaming Control Board ("PGCB") issued temporary regulations governing the activity. As of December 31, 2018, seven casinos had petitioned to operate retail and online sportsbooks in Pennsylvania, including Presque Isle, which the Company acquired on January 11, 2019. Five of the seven casino retail sportsbooks are operational, and two have been approved and are not currently operational, including Presque Isle. On February 6, 2019, the PGCB approved our retail and online sports betting petition for Presque Isle. We plan to open our retail BetAmerica Sportsbook at Presque Isle after additional approvals are obtained, including licensing for the related equipment and software providers. The PGCB has not announced a timeline for online sports betting to go live in Pennsylvania. We believe this legislation could have a positive impact on our business.

Online Gaming

In October 2017, legislation was signed into law that would allow for the operation of online gaming in Pennsylvania. In March 2018, the PGCB issued temporary regulations governing the activity. The legislation allows for casinos to operate up to three categories of licenses: poker, interactive slots and interactive table games. Existing in-state casinos originally had 120 days to purchase a license. Each individual license is \$4 million per license or \$10 million for all three. Following the initial 120 days, the state allowed out of state gaming entities the opportunity to purchase an online gaming license. The tax rate on poker and table games is 16% of gross gaming revenue, while the tax on slot machine style games is 54%. The PGCB has not announced plans to make the remaining licenses available for purchase. On October 31, 2018, the PGCB approved Presque Isle's petition for a license to offer interactive slots and interactive table games. The PGCB has not announced a timeline for online gaming to go live in Pennsylvania. We believe this legislation could have a positive impact on our business.

Casino Regulations and Potential Legislative Changes

Casino laws are generally designed to protect casino consumers and the viability and integrity of the casino industry. Casino laws may also be designed to protect and maximize state and local revenue derived through taxes and licensing fees imposed on casino industry participants as well as to enhance economic development and tourism. To accomplish these public policy goals, casino

laws establish procedures to ensure that participants in the casino industry meet certain standards of character and fitness. In addition, casino laws require casino industry participants to:

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

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

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

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

Licensing and Suitability Determinations

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

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

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

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

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

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

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

Violations of Gaming Laws

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

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

Reporting and Record-keeping Requirements

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

Review and Approval of Transactions

Substantially all material loans, leases, sales of securities and similar financing transactions must be reported to and in some cases

approved by casino authorities. We may not make a public offering of securities without the prior approval of certain casino authorities. Changes in control through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or otherwise are subject to receipt of prior approval of casino authorities. Entities seeking to acquire control of us or one of our subsidiaries must satisfy casino authorities with respect to a variety of stringent standards prior to assuming control. Gaming authorities may also require controlling shareholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

License Fees and Gaming Taxes

We pay substantial license fees and taxes in many jurisdictions in connection with our casino operations which are computed in various ways depending on the type of gambling or activity involved. Depending upon the particular fee or tax involved, these fees and taxes are payable with varying frequency. License fees and taxes are based upon such factors as a percentage of the gross casino revenue received; the number of gambling devices and table games operated; or a one-time fee payable upon the initial receipt of license and fees in connection with the renewal of license. In some jurisdictions, casino tax rates are graduated such that the tax rates increase as gross casino revenue increases. Tax rates are subject to change, sometimes with little notice, and such changes could have a material adverse impact on our casino operations.

Operational Requirements

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

Specific State Casino Regulations and Potential Legislative Changes

Florida

The ownership and operation of casino gaming facilities in the State of Florida is subject to extensive state and local regulation, primarily by the DBPR, within the executive branch of Florida's state government. The DBPR is charged with the regulation of Florida's pari-mutuel, card room and slot gaming industries, as well as collecting and safeguarding associated revenue due to the state. The DBPR has been designated by the Florida legislature as the state compliance agency with the authority to carry out the state's oversight responsibilities in accordance with the provisions outlined in the compact between the Seminole Tribe of Florida and the State of Florida. Changes in Florida laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted and such changes, if enacted, could have an adverse impact on our Florida gaming operation. The laws and regulations of Florida are based on policies of maintaining the health, welfare and safety of the general public and protecting the gaming industry from elements of organized crime, illegal gambling activities and other harmful elements, as well as protecting the public from illegal and unscrupulous gaming to ensure the fair play of devices. The failure to comply with the rules and regulations of the DBPR could have a material adverse impact on our business.

Seminole Compact

In December 2015, Florida's Governor signed a twenty-year Seminole Compact with the Seminole Tribe preserving the Seminole Tribe's geographic exclusivity and right to exclusively operate blackjack, craps and roulette games and providing the state with an expected \$3.0 billion in additional state revenue over a seven-year period beginning in 2017. The Seminole Compact addresses other issues such as the potential for pari-mutuel operations to add blackjack in a limited fashion as well as the potential for expanded licenses in Palm Beach and Miami-Dade counties. At this time it is not possible to determine what impact the Seminole Compact will have on our business.

Constitutional Amendment

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

Louisiana

The manufacturing, distribution, servicing and operation of video draw poker devices in Louisiana are subject to the Louisiana Video Draw Poker Devices Control Law and the rules and regulations promulgated thereunder. The manufacturing, distribution, servicing and operation of video poker devices and slot machines are governed by the Louisiana Gaming Control Board (the "Louisiana Board") which oversees all licensing for all forms of legalized gaming in Louisiana. The Video Gaming Division and the Slots Gaming Division of the Gaming Enforcement Section of the Office of the State Police within the Department of Public

Safety and Corrections (the "Division") performs the video poker and slots gaming investigative functions for the Louisiana Board. The laws and regulations of Louisiana are based on policies of maintaining the health, welfare and safety of the general public and protecting the gaming industry from elements of organized crime, illegal gambling activities and other harmful elements, as well as protecting the public from illegal and unscrupulous gaming to ensure the fair play of devices. The Louisiana Board also regulates slot machine gaming at racetrack facilities pursuant to the Louisiana Pari-Mutuel Live Racing Facility Economic Redevelopment and Gaming Control Act. Changes in Louisiana laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted and such changes, if enacted, could have an adverse impact on our Louisiana gaming operations. In addition, the LSRC also issues licenses required for Fair Grounds to operate slot machines at the racetrack and video poker devices at its OTBs. The failure to comply with the rules and regulations of the Louisiana Board or the LSRC could have a material adverse impact on our business.

Maine

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

Maryland

The ownership and operation of casino gaming facilities in the State of Maryland is subject to extensive state and local regulation and is subject to licensing and regulatory control by the Maryland Lottery and Gaming Control Commission ("MLGCC"), with staff assistance from the Maryland Lottery and Gaming Control Agency ("MLGCA"). The MLGCA oversees all internal controls, auditing, security, surveillance, background investigations, licensing and accounting procedures for each casino in the State of Maryland, including Ocean Downs. Changes in Maryland laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted and such changes, if enacted, could have an adverse impact on our Maryland gaming operations. The failure to comply with the rules and regulations of the MLGCC could have a material adverse impact on our business.

In April 2017, legislation was signed into law to allow a VLT licensee to reduce the following day's proceeds by the amount of money returned to players that exceeds the amount bet through VLTs or table games on a given day, thereby reducing the taxes owed by the VLT licensee. In April 2018, legislation was signed into law which provides a video lottery operation licensee may carry over the losses for up to seven days. The legislation has had, and we believe will continue to have, a positive impact on our business.

In April 2018, legislation was signed into law which provides for up to \$1.2 million annually to be distributed through 2024 to Ocean Downs Racetrack from the Purse Dedication Account for losses associated with maintaining a minimum of 40 days of live racing each year. We believe this legislation will have a positive impact on our business.

Mississippi

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

Ohio

VLTs were introduced in the State of Ohio in 2012 when the Governor of Ohio signed Executive Order 2011-22K, which authorized the Ohio Lottery Commission (the "OLC") to amend and adopt rules necessary to implement a video lottery program at Ohio's seven horse racing facilities. The ownership and operation of VLT facilities in the State of Ohio is subject to extensive state and local regulation. The laws, regulations and supervisory procedures of the OLC include: (1) regulating the licensing of video lottery sales agents, key gaming employees and VLT manufacturers; (2) collecting and disbursing VLT revenue; and (3) maintaining compliance in regulatory matters. Changes in Ohio laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted and such changes, if enacted, could have an adverse impact on our Ohio gaming operations. The failure to comply with the rules and regulations of the OLC could have a material adverse impact on our business.

Pennsylvania

The ownership and operation of casino gaming facilities in the Commonwealth of Pennsylvania are subject to extensive state and local regulation and are subject to licensing and regulatory control by the PGCB as well as other agencies. The PGCB regulates, oversees and enforces all matters related to gaming activity in Pennsylvania, including, without limitation, operations, internal controls, accounting procedures, auditing, security, surveillance, licensing, background investigations and compliance of each casino in the state. Changes in Pennsylvania laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted and such changes, if enacted, could have an adverse impact on our Pennsylvania gaming operations. The failure to comply with the rules and regulations of the PGCB could have a material adverse impact on our business.

Specific State HRM Regulations and Potential Legislative Changes

Kentucky

The KHRC is responsible for overseeing the annual licensing and operations of HRMs in Kentucky. In September 2018, Churchill Downs received final approval from the KHRC to open Derby City Gaming, located in Louisville, Kentucky. Derby City Gaming is subject to extensive state and local legislation and is subject to licensing and regulatory control by the KHRC.

Changes in Kentucky laws or regulations may limit or otherwise materially affect the types of HRMs that may be conducted and such changes, if enacted, could have an adverse impact on our Kentucky HRM operations. The failure to comply with the rules and regulations of the KHRC could have a material adverse impact on our business.

E. Environmental Matters

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

In the ordinary course of our business, we may receive notices from regulatory agencies regarding our compliance with CAFO regulations that may require remediation at our facilities. On December 6, 2013, we received a notice from the EPA regarding alleged CAFO non-compliance at Fair Grounds. We are currently in discussions with the EPA regarding potential remedial actions relating to alleged CAFO non-compliance at Fair Grounds and expect to incur certain capital expenditures to upgrade these facilities to resolve this issue.

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

F. Marks and Internet Properties

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

G. Employees

As of December 31, 2018, we employed approximately 4,100 full-time and part-time employees Company-wide. Due to the seasonal nature of our live racing business, the number of seasonal and part-time persons employed will vary throughout the year.

H. Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and other Securities and Exchange Commission ("SEC") filings, and any amendments to those reports and any other filings that we file with or furnish to the SEC under the Securities Exchange Act of 1934 are made available free of charge on our website (www.churchilldownsincorporated.com) as soon as reasonably practicable after we electronically file the materials with the SEC and are also available at the SEC's website at www.sec.gov.

ITEM 1A. RISK FACTORS

Risks Related to the Company

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

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

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

- Negative economic conditions and the persistence of elevated levels of unemployment can impact consumers' disposable incomes and, therefore, impact the demand for entertainment and leisure activities.
- Declines in the residential real estate market, increases in individual tax rates and other factors that we cannot accurately predict may reduce the disposable income of our customers.
- Decreases in consumer discretionary spending could affect us even if such decreases occur in other markets. For example, reduced wagering levels and profitability at racetracks from which we carry racing content could cause certain racetracks to cancel races or cease operations and therefore reduce the content we could provide to our customers.

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

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

We are vulnerable to additional or increased taxes and fees

We believe that the prospect of raising significant additional revenue through taxes and fees is one of the primary reasons that certain jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to the normal federal, state, provincial and local income taxes and such taxes and fees may be increased at any time. From time to time, legislators and officials have proposed changes in tax laws or in the administration of laws affecting the horseracing, online wagering and casino industries. Many states and municipalities, including ones in which we operate, are currently experiencing budgetary pressures that may make it more likely they would seek to impose additional taxes and fees on our operations. We are subject to tax in multiple U.S. tax jurisdictions and judgment is required in determining our provision for income taxes, deferred tax assets or liabilities and in evaluating our tax positions. It is not possible to determine the likelihood, extent or impact of any future changes in tax laws or fees, or changes in the administration of such laws; however, if enacted, such changes could have a material adverse impact on our business.

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

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

We depend on key and highly skilled personnel to operate our business, and if we are unable to retain our current personnel or hire additional personnel, our ability to develop and successfully grow our business could be harmed

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

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

Certain of our key employees are required to file applications with the gaming authorities in each of the jurisdictions in which we operate and are required to be licensed or found suitable by these gaming authorities. If the gaming authorities were to find a key employee unsuitable for licensing, we may be required to sever the employee relationship, or the gaming authorities may

require us to terminate the employment of any person who refuses to file appropriate applications. Either result could significantly impair our operations.

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

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

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

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

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

Under our debt facilities, we are required to satisfy and maintain specified financial ratios. Our ability to meet those financial ratios can be affected by events beyond our control, and as a result, we may be unable to meet those ratios. A failure to comply with the financial ratios and other covenants contained in our debt facilities or our other indebtedness could result in an event of default which, if not cured or waived, could have a material adverse impact on our business and financial condition. In the event of any default under our debt facilities or our other indebtedness, the lenders thereunder:

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

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

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

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

We are subject to a variety of federal, state and local governmental laws and regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. Environmental laws and regulations could hold us responsible for the cost of cleaning up hazardous materials contaminating real property that we own or operate (or previously owned or operated) or properties at which we have disposed of hazardous materials, even if we did not cause the contamination. If we fail to comply with environmental laws or if contamination is discovered, a court or government agency could impose severe penalties or restrictions on our operations or assess us with the costs of taking remedial actions. For instance, we are currently in discussions with the EPA regarding potential remedial actions relating to alleged CAFO non-compliance at Fair Grounds and expect to incur certain capital expenditures to upgrade these facilities to resolve this issue. Enforcement of CAFO regulations have been receiving increased governmental attention and compliance with these and other environmental laws can, in some circumstances, require significant capital expenditures.

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

We rely on information technology and other systems to manage our business. A disruption or failure in our technology systems or operations in the event of a cyber-attack, major earthquake, weather event, terrorist attack or other catastrophic event could interrupt our operations, damage our properties and reduce the number of customers who visit our facilities in the affected areas.

Our online wagering, HRM and brick-and-mortar casino businesses depend upon our communications hardware and our computer hardware. We have built certain redundancies into our systems to attempt to avoid downtime in the event of outages, system failures or damage. Our systems also remain vulnerable to damage or interruption from floods, fires, power loss, telecommunication failures, terrorist cyber-attacks, hardware or software error, computer viruses, computer denial-of-service attacks and similar events. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems could result in lengthy interruptions in our services. Any unscheduled interruption in the availability of our websites and our services could result in an immediate, and possibly substantial, loss of revenue.

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

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

There are numerous federal, state and local laws regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other data, and such privacy laws and regulations continue to evolve. Many states have passed laws requiring notification to customers when there is a security breach for personal data, such as the 2002 amendment to California's Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to implement. In addition, California has adopted the California Consumer Privacy Act of 2018, which goes into effect on January 1, 2020, providing California consumers greater control of the information collected, stored, and sold, and other states are considering similar legislation. The costs of compliance with these laws may increase as a result of changes in interpretation or changes in law. Any failure on our part to comply with these laws or our privacy policies may subject us to significant liabilities, including governmental enforcement actions or litigation.

Further, our systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third party vendor, may not be successful. Interruptions in our services or a breach of a customer's secure data could cause current or potential users to believe that our systems are unreliable, which could permanently harm our reputation and brand. These interruptions could also increase the burden on our engineering staff, which, in turn, could delay our introduction of new features and services on our websites and in our games. We attempt to protect against this risk with our property and business interruption insurance, which covers damage or interruption of our systems, although there is no assurance that such insurance will be adequate to cover all potential losses.

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

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

The costs to eliminate or address the foregoing security threats and vulnerabilities before or after a cyber incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays or cessation of service, and loss of existing or potential suppliers or customers. As threats related to cyber-attacks develop and grow, we may also find it necessary to make further investments to protect our data and infrastructure, which may impact our results of operations. We

have insurance coverage for protection against cyber-attacks, which may not be sufficient to cover all possible claims, and we could suffer losses that could have a material adverse effect on our business.

Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems, change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

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

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

We have "all risk" property insurance coverage for our operating properties which covers damage caused by a casualty loss (such as fire, natural disasters, acts of war, or terrorism). Our level of property insurance coverage, which is subject to policy maximum limits and certain exclusions, may not be adequate to cover all losses in the event of a major casualty. In addition, certain casualty events may not be covered at all under our policies. Therefore, certain acts could expose us to substantial uninsured losses. Any losses we incur that are not adequately covered by insurance may decrease our future operating income, require us to fund replacements or repairs for destroyed property and reduce the funds available for payment of our obligations.

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

We renew our insurance policies on an annual basis. The cost of coverage may become so high that we may need to further reduce our policy limits or agree to certain additional exclusions from our coverage. If we are unable to obtain sufficient insurance coverage, we will be at risk for increased potential losses, which could be substantial. In addition, our debt instruments and other material agreements require us to meet certain standards related to insurance coverage. If we are unable to obtain sufficient insurance coverage to satisfy these requirements an event of default could result under these debt instruments or material agreements.

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

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

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

We could face challenges in identifying development projects that fit our strategic objectives, identifying potential acquisition or divestiture candidates and/or development partners, finding buyers, negotiating projects on acceptable terms, and managing and integrating the acquisition or development projects. New developments or acquisitions may not be completed or integrated successfully. The divestiture of existing businesses may be affected by our ability to identify potential buyers. Current or future regulation may postpone a divestiture pending certain resolutions to federal, state or local legislative issues. New properties or developments may not be completed or integrated successfully.

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

We have completed acquisition transactions in the past, and we may pursue acquisitions from time to time in the future. The successful integration of newly acquired businesses into our operations has required and will continue to require the expenditure of substantial managerial, operating, financial and other resources and may also lead to a diversion of our attention from our ongoing business concerns. We may not be able to successfully integrate new businesses, manage the combined operations or realize projected revenue gains, cost savings and synergies in connection with those acquisitions on the timetable contemplated, if at all. Management of the new business operations, especially those in new lines of business or different geographic areas, may require that we increase our managerial resources. The process of integrating new operations may also interrupt the activities of those businesses, which could have a material adverse impact on our business. The costs of integrating businesses we acquire could significantly impact our short-term operating results. These costs could include the following:

- restructuring charges associated with the acquisitions;

- non-recurring acquisition costs, including accounting and legal fees, investment banking fees and recognition of transaction-related costs or liabilities; and
- costs of imposing financial and management controls and operating, administrative and information systems.

We perform financial, operational and legal diligence on the businesses we purchase; however, an unavoidable level of risk remains regarding the actual condition of these businesses and our ability to continue to operate them successfully and integrate them into our existing operations. In any acquisition we make, we face risks that include the following:

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

If we are unsuccessful in overcoming these risks, it could have a material adverse impact on our business.

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

Our Racing segment is dependent upon the number of people attending and wagering on live horse races at our racetracks and our Online Wagering segment is dependent on wagering on live horse races at our racetracks and third-party racetracks. According to industry sources, pari-mutuel handle declined on average 3% per year from 2008 to 2016 due to a number of factors, including increased competition from other wagering and entertainment alternatives. From 2016 to 2018, pari-mutuel handle on horse racing has been relatively stable with average annual growth of 2%. If interest in horse racing is lower in the future, it may have a negative impact on revenue and profitability in our Racing segment and our Online Wagering segment. If attendance at and wagering on live horse racing declines, it could have a material adverse impact on our business.

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

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

We may inadvertently infringe on the intellectual property rights of others

In the course of our business, we may become aware of potentially relevant patents or other intellectual property rights held by other parties, and such other parties may allege that we are infringing, misappropriating or otherwise violating their intellectual property rights. Many of our competitors as well as other companies and individuals have obtained, and may obtain in the future, patents or other intellectual property rights that concern products or services related to the types of products and services we currently offer or may plan to offer in the future. We evaluate the validity and applicability of these intellectual property rights and determine in each case whether we must negotiate licenses to incorporate or use the proprietary technologies in our products.

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

Our results of operations may be affected by the outcome of litigation within our industry and the protection and validity of our intellectual property rights. Any litigation regarding patents or other intellectual property used in our products, including in the areas of advance deposit wagering could be costly and time consuming and could divert our management and key personnel from our business operations.

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

We take significant measures to protect the secrecy of large portions of our source code. If unauthorized disclosure of our source code occurs, we could potentially lose future trade secret protection for that source code. This could make it easier for third parties to compete with our products by copying functionality which could adversely affect our revenue and operating margins. Unauthorized disclosure of source code also could increase security risks.

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

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

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

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

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

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

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

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

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

applicable laws or company policies governing our international operations, we may face legal proceedings and actions which could result in civil penalties, administration actions and criminal sanctions.

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

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

From time to time, we are a party in various lawsuits and judicial and governmental actions in the ordinary course of business. No assurance can be provided as to the outcome of these lawsuits and actions which can be expensive and time consuming. We may not be successful in the defense or prosecution of these lawsuits or actions, which could result in settlements, costs or damages that could have a material adverse impact on our business, financial condition, results of operations, and reputation.

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

Some of our employees are represented by labor unions. A strike or other work stoppage at one of our properties could have an adverse impact on our business and results of operations. From time to time, we have also experienced attempts to unionize certain of our non-union employees. We may experience additional union activity in the future. Any such union organization efforts could cause disruptions in our business and result in significant costs.

Risks Related to Our Racing Business

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

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

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

The Interstate Horseracing Act, or IHA, as well as various state racing laws, require that we have written agreements with the horsemen at our racetracks in order to simulcast races, and, in some cases, conduct live racing. Certain industry groups negotiate these agreements on behalf of the horsemen (the "Horsemen's Groups"). These agreements provide that we must receive the consent of the Horsemen's Groups at the racetrack conducting live races before we may allow third parties to accept wagers on those races. We currently negotiate formal agreements with the applicable Horsemen's Groups at our racetracks on an annual basis. The failure to maintain agreements with, or obtain consents from, the Horsemen's Groups on satisfactory terms or the refusal by a Horsemen's Group to consent to third parties accepting wagers on our races or our accepting wagers on third parties' races could have a material adverse impact on our business.

From time to time, the Thoroughbred Owners of California, the Horsemen's Group representing horsemen in California, the Florida Horsemen's Benevolent and Protective Association, Inc. (the "FHBPA"), which represents horsemen in Florida, and the Kentucky Horsemen's Benevolent and Protective Association have withheld their consent to send or receive racing signals among racetracks. Failure to receive the consent of these Horsemen's Groups for new and renewing simulcast agreements could have a material adverse impact on our business.

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

We have agreements with other racetracks for the distribution of racing content through both the import of other racetracks' signals for wagering at our properties and the export of our racing signal for wagering at other racetracks' facilities. From time

to time, we may be unable to reach agreements on terms acceptable to us. As a result, we may be unable to distribute our racing content to other locations or to receive other racetracks' racing content for wagering at our racetracks. The inability to distribute our racing content could have a material adverse impact on our business, results of operations and financial condition.

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

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

Our business depends on utilizing and providing totalisator services

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

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

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

We conduct our racing business at four thoroughbred racetracks (Churchill Downs, Arlington, Fair Grounds, and Presque Isle) and harness racing at Ocean Downs and through our equity investment at MVG. We have a limited number of live racing days at our racetracks, and the number of live racing days varies from year to year. A significant portion of our racing revenue is generated during the Kentucky Derby and Oaks week. If a business interruption were to occur and continue for a significant length of time at any of our racetracks, particularly one occurring at Churchill Downs at a time that would affect the Kentucky Derby and Oaks week, it could have a material adverse impact on our business.

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

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

All of our racetracks face competition from a variety of sources, including spectator sports and other entertainment and gaming options. Competitive gaming activities include traditional and Native American casinos, VLTs, state-sponsored lotteries and other forms of legalized and non-legalized gaming in the U.S. and other jurisdictions.

All of our racetracks face competition in the simulcast market. In 2018, approximately 37,000 thoroughbred horse races were conducted in the United States. We hosted approximately 2,220 races, or approximately 6.0% of the total number of thoroughbred horse races in the United States in 2018. As a content provider, we compete for wagering dollars in the simulcast market with other racetracks conducting races at or near the same times as our races. As a racetrack operator, we also compete with other racetracks running live meets at or near the same time as our horse races. In recent years, this competition has increased as more states have allowed additional, automated gaming activities, such as slot machines at racetracks with mandatory purse contributions.

We also face increased competition for horses and trainers from racetracks that are licensed to operate slot machines and other electronic gaming machines that provide these racetracks an advantage in generating new additional revenue for race purses and capital improvements. Churchill Downs and Arlington have experienced heightened competition from "racinos" in Indiana, Pennsylvania, Delaware, Ohio, and West Virginia whose purses are supplemented by gaming revenue. Competition from these facilities could harm our ability to attract full fields, which could have a material adverse impact on our business.

Competition from web-based businesses presents additional challenges for our racing business. Unlike most online and web-based gaming companies, our racetracks require significant and ongoing capital expenditures for both continued operations and expansion. Our racing business also faces significantly greater operating costs compared to costs borne by online and web-

based gaming companies. Our racing business cannot offer the same number of gaming options as online and Internet-based gaming companies. These companies may divert wagering dollars from pari-mutuel wagering venues, such as our racetracks. Our inability to compete successfully with these competitors could have a material adverse impact on our business.

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

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

In addition to licensing requirements, state regulatory authorities can have a significant impact on the operation of our business. In Illinois, the IRB has the authority to designate racetracks as "host tracks" for the purpose of receiving host track revenue generated during periods when no racetrack is conducting live races. Racetracks that are designated as "host tracks" obtain and distribute out-of-state simulcast signals for the State of Illinois. Under Illinois law, the "host track" is entitled to a larger portion of commissions on related pari-mutuel wagering. The IRB has designated Arlington as a "host track." Should Arlington cease to be a "host track," the loss of hosting revenue could have an adverse impact on our business. Arlington is statutorily entitled to recapture as revenue monies that are otherwise payable to Arlington's purse account. These statutorily or regulatory established revenue sources are subject to change every legislative session, and a reduction or elimination of any of these revenue sources could have an adverse impact on our business.

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

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

Risks Related to Our TwinSpires Business

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

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

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

Many states have considered and are considering interactive and Internet gaming legislation and regulations which may inhibit our ability to do business in such states. Anti-gaming conclusions and recommendations of other governmental or quasi-

governmental bodies could form the basis for new laws, regulations, and enforcement policies that could have a material adverse impact on our business. The extensive regulation by both state and federal authorities of gaming activities also can be significantly affected by changes in the political climate and changes in economic and regulatory policies. Such effects could have a material adverse impact to the success of our ADW operations.

Our online horseracing wagering business faces strong competition and we expect competition to increase

Our online horseracing wagering business is sensitive to changes and improvements to technology and new products and faces strong competition from other web-based interactive gaming and wagering businesses. Our ability to develop, implement and react to new technology and products for our mobile and online wagering business is a key factor in our ability to compete with other ADW businesses. Some of our competitors may have greater resources than we do. We may also be unable to retain our core customer base if we fail to continue to offer robust content offerings and other popular features. We anticipate increased competition in our mobile and online business from various other forms of online gaming, and our potential inability to retain customers or our failure to attract new customers could adversely affect our business.

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

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

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

Risks Related to Our Sports Betting and iGaming Business

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

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

States or the federal government may legalize online sports betting and iGaming in a manner that is unfavorable to us. Several states and the federal government are considering draft laws that require online casinos to also have a license to operate a brick-and-mortar casino, either directly or indirectly through an affiliate. If, like Nevada and New Jersey, state jurisdictions enact legislation legalizing online sports betting and iGaming subject to a brick-and-mortar requirement, we may be unable to offer online sports betting and iGaming in such jurisdictions if we are unable to establish an affiliation with a brick-and-mortar casino in such jurisdiction on acceptable terms.

Further, we expect that we will face increased competition for online sports betting and iGaming as the potential for legalized online sports betting and iGaming continues to grow. In the online sports betting and iGaming industry, a "first mover" advantage exists. Our ability to compete effectively in respect of a particular style of online sports betting and iGaming in the United States may be premised on introducing a style of gaming before our competitors. Failing to do so could materially impair our ability to grow in the online sports betting and iGaming space. We may fail to accurately predict when online sports betting and iGaming will be legalized in significant jurisdictions. The legislative process in each state and at the federal level is unique and capable of rapid, often unpredictable change. If we fail to accurately forecast when and how, if at all, online sports betting and iGaming will be legalized in additional state jurisdictions, such failure could impair our readiness to introduce online sports betting and iGaming offerings in such jurisdictions, which could have a material adverse impact on our business.

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

During the second quarter of 2018, the U.S. Supreme Court overturned the federal ban on sports betting. In the second quarter of 2018, we entered into an agreement with Golden Nugget Atlantic City to enter into the New Jersey market, and went live with our online sports betting and online casino platform in February 2019. We began accepting wagers on sporting events during the third quarter of 2018 at our retail BetAmerica Sportsbook at Harlow's and Riverwalk in Mississippi, and we anticipate implementing sports betting in Pennsylvania following our recently completed acquisition of Presque Isle in January 2019. Our ability to be successful with our proposed sports betting operations is dependent on potential legislation in various jurisdictions that affect the sports betting industry in the United States. We continue to engage with state lawmakers in our other jurisdictions to advocate for the passage of sports betting laws with reasonable tax rates and license fees.

Our sports betting operations will compete in a rapidly evolving and highly competitive market against an increasing number of competitors. In order to compete successfully, we may need to enter into agreements with strategic partners and other third party vendors and we may not be able to do so on terms that are favorable to us. The success of our proposed sports betting operations is dependent on a number of additional factors that are beyond our control, including the ultimate tax rates and license fees charged by jurisdictions across the United States, our ability to gain market share in a newly developing market, our ability to compete with new entrants in the market, changes in consumer demographics and public tastes and preferences, the performance of and licensing of third party vendors, and the availability and popularity of other forms of entertainment.

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

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

Risks Related to Our Casino Business

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

Our casinos operate in a highly competitive industry with a large number of participants, some of which have financial and other resources that are greater than our resources. Our casino operations face competition from land-based casinos, dockside casinos, riverboat casinos, casinos located on racing tracks, Native American casinos, VLTs, state-sponsored lotteries, iGaming, and other forms of legalized gaming in the U.S. and other jurisdictions. There has been significant competition in our markets as a result of the expansion of facilities by existing market participants, the entrance of new gaming participants into a market, and legislative changes in prior years. We do not have the same access to the gaming public or possess the advertising resources that are available to state-sponsored lotteries or other competitors which may adversely affect our ability to compete effectively with them. Legislators in Florida continue to debate the expansion of Florida gaming to include Las Vegas-style destination resort casinos. Such casinos may be subject to taxation rates lower than the current gaming taxation structure. Should such legislation be enacted, it could have a material adverse impact on our business.

The gaming industry also faces competition from a variety of sources for discretionary consumer spending, including spectator sports and other entertainment and gaming options. Web-based interactive gaming and wagering is growing rapidly and affecting competition in our industry as federal regulations on web-based activities are clarified. We anticipate that competition will continue to grow in the web-based interactive gaming and wagering channels because of ease of entry and such increased competition may have an adverse impact on our business.

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

Our casino operations exist at the discretion of the states in which we conduct business, and are subject to extensive state and local regulation. These regulatory authorities have broad discretion and may, for any reason set forth in the applicable legislation, rules and regulations, limit, condition, suspend, fail to renew or revoke a license or registration to conduct gaming operations. Like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses or registrations and have the suitability of certain of our directors, officers and employees approved. While we have obtained all governmental licenses, registrations, permits and approvals currently necessary for the operation of our gaming facilities, we cannot be certain that we will be able to obtain such renewals or approvals in the future, or that we will be able to obtain future

approvals that would allow us to expand our gaming operations. In addition, the loss of a license in one jurisdiction could trigger the loss of a license or affect or eligibility for a license in another jurisdiction.

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

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

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

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

The majority of our gaming revenue is attributable to slot and video poker machines operated by us at our casinos and wagering facilities, and there are a limited number of slot machine manufacturers servicing the gaming industry. It is important for competitive reasons that we offer the most popular and up-to-date machine games with the latest technology to our guests. A substantial majority of the slot machines sold in the United States in recent years were manufactured by a few select companies, and there has been extensive consolidation activity within the gaming equipment sector. Recently, the prices of new machines have escalated faster than the rate of inflation and slot machine manufacturers have occasionally refused to sell slot machines featuring the most popular games, instead requiring participating lease arrangements in order to acquire the machines. Participating slot machine leasing arrangements typically require the payment of a fixed daily rental. Such agreements may also include a percentage payment of coin-in or net win. Generally, a participating lease is substantially more expensive over the long term than the cost to purchase a new machine. For competitive reasons, we may be forced to purchase new slot machines or enter into participating lease arrangements that are more expensive than the costs associated with the continued operation of our existing slot machines. If the newer slot machines do not result in sufficient incremental revenue to offset the increased investment, it could adversely affect our operations and profitability.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own the following real property:

- 100 acres at Churchill Downs and our auxiliary training facility at Derby City Gaming in Louisville, Kentucky
- Arlington International Race Course in Arlington Heights, Illinois
- Oxford Casino in Oxford, Maine
- Riverwalk Casino in Vicksburg, Mississippi
- Calder in Miami Gardens, Florida
- Fair Grounds Race Course, Fair Grounds Slots and VSI, and two OTBs in New Orleans, Louisiana
- Ocean Downs Casino and Racetrack in Ocean City, Maryland
- Derby City Gaming in Louisville, Kentucky
- Presque Isle in Erie, Pennsylvania, which was acquired on January 11, 2019 as a result of the Presque Isle Transaction

We lease the following real property:

- 158 acres at Churchill Downs in Louisville, Kentucky

- Arlington - We lease eleven OTBs in Illinois
- Fair Grounds - We lease twelve OTBs in Louisiana
- Harlow's Casino in Greenville, Mississippi - We lease the land on which the casino and hotel are located
- TwinSpires.com and BRIS in Lexington, Kentucky
- United Tote in Louisville, Kentucky; San Diego, California; and Portland, Oregon
- Corporate and Online Wagering headquarters in Louisville, Kentucky

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

ITEM 3. LEGAL PROCEEDINGS

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

Kater Class Action Suit

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

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

On February 6, 2018, oral arguments on Plaintiff's appeal of the dismissal of the Kater litigation took place before the United States Court of Appeals for the Ninth Circuit. On March 28, 2018, the United States Court of Appeals for the Ninth Circuit reversed and remanded the District Court's dismissal of the complaint against the Company. On June 12, 2018, the United States Court of Appeals for the Ninth Circuit denied the Company's Petition for Rehearing En Banc filed by the Company on May 11, 2018. On July 13, 2018, the parties filed a Joint Status Report and Discovery Plan in the District Court. On July 20, 2018, the Company filed a Motion to Compel Arbitration in the District Court, which was denied on November 2, 2018. The Company filed an Answer to Plaintiff's Complaint on November 16, 2018. On January 28, 2019, the parties filed an updated Joint Status Report. On February 19, 2019, the Company filed a Motion for Joinder of Big Fish Games, Inc. as a Necessary Party.

In accordance with the terms of the Stock Purchase Agreement, the Company is working closely with the Purchaser to vigorously defend this matter in both the District Court and in any further appellate proceedings, and the Company believes that there are meritorious legal and factual defenses against Plaintiff's allegations and requests for relief.

Thimmegowda Class Action Suit

On February 11, 2019, a purported class action styled Manasa Thimmegowda v. Big Fish Games, Aristocrat Technologies Inc., Aristocrat Leisure Ltd., and Churchill Downs Inc., was filed in the United States District Court for the Western District of Washington alleging, among other claims, that "Big Fish Casino," which is operated by Big Fish Games, violated Washington law, including the Washington Consumer Protection Act, and seeking, among other things, return of monies lost, reasonable attorney's fees, injunctive relief, and treble and punitive damages. The Company is working to vigorously defend this matter, and believes that there are meritorious legal and factual defenses against Plaintiff's allegations and requests for relief.

James Rivera, et al. v. Calder Race Course, Inc., et al.

On March 1, 2013, James Rivera, individually and by and through his wife and their children (the "Plaintiffs"), filed a First Amended Complaint for Damages (as amended from time to time) styled James Rivera, et al. v. Calder Race Course, Inc., et al. in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida stemming from a spinal cord injury to Mr. Rivera when the horse he was exercising collapsed and died during a workout at Calder Racing on November 25, 2008. The Plaintiffs seek recovery of compensatory and punitive damages, interest and costs from Calder Racing in connection with the injuries suffered by Mr. Rivera, but no specific amount of damages. The case has been set for trial in April 2019. The Company is vigorously defending this matter and believes that there are meritorious legal and factual defenses against Plaintiff's allegations and requests for relief.

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

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

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

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

Louisiana Environmental Protection Agency Non-Compliance Issue

On December 6, 2013, we received a notice from the EPA regarding alleged CAFO non-compliance at Fair Grounds. We have had and continue to have discussions with the EPA regarding potential remedial actions relating to alleged CAFO non-compliance at Fair Grounds and expect to incur certain capital expenditures to upgrade these facilities to resolve this issue.

Louisiana Horsemen's Purses Class Action Suit

On April 21, 2014, John L. Soileau and other individuals filed a Petition for Declaratory Judgment, Permanent Injunction, and Damages-Class Action styled John L. Soileau, et. al. versus Churchill Downs Louisiana Horseracing, LLC, Churchill Downs Louisiana Video Poker Company, LLC (Suit No. 14-3873) in the Parish of Orleans Civil District Court, State of Louisiana (the "District Court"). The petition defined the "alleged plaintiff class" as quarter-horse owners, trainers and jockeys that have won purses at the "Fair Grounds Race Course & Slots" facility in New Orleans, Louisiana since the first effective date of La. R.S. 27:438 and specifically since 2008. The petition alleged that Churchill Downs Louisiana Horseracing, L.L.C. and Churchill Downs Louisiana Video Poker Company, L.L.C. ("Fair Grounds Defendants") have collected certain monies through video draw poker devices that constitute monies earned for purse supplements and all of those supplemental purse monies have been paid to thoroughbred horsemen during Fair Grounds' live thoroughbred horse meets. La. R.S. 27:438 requires a portion of those supplemental purse monies to be paid to quarter-horse horsemen during Fair Grounds' live quarter-horse meets. The petition requested that the District Court declare that Fair Grounds Defendants violated La. R.S. 27:438, issue a permanent and mandatory

injunction ordering Fair Grounds Defendants to pay all future supplements due to the plaintiff class pursuant to La. R.S. 27:438, and to pay the plaintiff class such sums as it finds to reasonably represent the value of the sums due to the plaintiff class. On August 14, 2014, the plaintiffs filed an amendment to their petition naming the Horsemen's Benevolent and Protective Association 1993, Inc. ("HBPA") as an additional defendant and alleging that HBPA is also liable to plaintiffs for the disputed purse funds. On October 9, 2014, HBPA and Fair Grounds Defendants filed exceptions to the suit, including an exception of primary jurisdiction seeking referral to the Louisiana Racing Commission. By Judgment dated November 21, 2014, the District Court granted the exception of primary jurisdiction and referred the matter to the Louisiana Racing Commission. On January 26, 2015, the Louisiana Fourth Circuit Court of Appeals denied the plaintiffs' request for supervisory review of the Judgment. On August 24, 2015, the Louisiana Racing Commission ruled that the plaintiffs did not have standing or a right of action to pursue the case. On September 18, 2015, the plaintiffs filed a Petition for Appeal of Administrative Order Dismissing Case for No Right of Action in the District Court seeking a reversal of the Louisiana Racing Commission's ruling. On July 13, 2016, the plaintiffs filed their brief with the District Court and Fair Grounds Defendants filed its brief on August 12, 2016. A hearing was held at the District Court on September 15, 2016 and the District Court affirmed the Louisiana Racing Commission's ruling. The plaintiffs filed an appeal with the Louisiana Fourth Circuit Court of Appeals on December 7, 2016. By Order dated August 23, 2017, the Louisiana Fourth Circuit Court of Appeals dismissed the plaintiffs' appeal without prejudice because the District Court's Judgment did not contain the necessary decretal language. To correct this deficiency, the District Court entered an Amended Judgment on September 19, 2017. On December 11, 2017, the plaintiffs appealed the Amended Judgment to the Louisiana Fourth Circuit Court of Appeals. On June 13, 2018, the Louisiana Fourth Circuit Court of Appeals reversed the Louisiana Racing Commission's ruling and remanded the matter to the Louisiana Racing Commission for further proceedings. On June 27, 2018, the Fair Grounds Defendants filed a Motion for Rehearing with the Louisiana Fourth Circuit Court of Appeals which was denied on July 12, 2018. On August 10, 2018, the Fair Grounds Defendants filed a Writ of Certiorari to the Louisiana Supreme Court seeking review of the Fourth Circuit Court of Appeal's decision; the writ was denied on November 14, 2018. The parties participated in unsuccessful non-binding mediation on October 18, 2018. Discovery is ongoing and a trial date has not been set.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market for Common Stock

The Company's common stock is traded on the Nasdaq Global Select Market under the symbol CHDN. As of February 11, 2019, there were approximately 2,640 shareholders of record. All share and per share amounts presented were retroactively adjusted to reflect the three-for-one stock split approved by the Board of Directors for shareholders of record on January 11, 2019 and with an effective date of January 25, 2019. The Company's stock began trading at the split adjusted price on January 28, 2019.

Dividends

Since joining The Nasdaq Stock Market in 1993, we have declared and paid cash dividends on an annual basis at the discretion of our Board of Directors. The payment and amount of future dividends will be determined by the Board of Directors and will depend upon, among other things, our operating results, financial condition, cash requirements and general business conditions at the time such payment is considered. We declared a dividend of \$0.543 in December 2018, which was paid in January 2019, and we declared a dividend of \$0.507 in December 2017, which was paid in January 2018.

Issuer Purchases of Common Stock

The following table provides information with respect to shares of common stock that we repurchased during the quarter ended December 31, 2018:

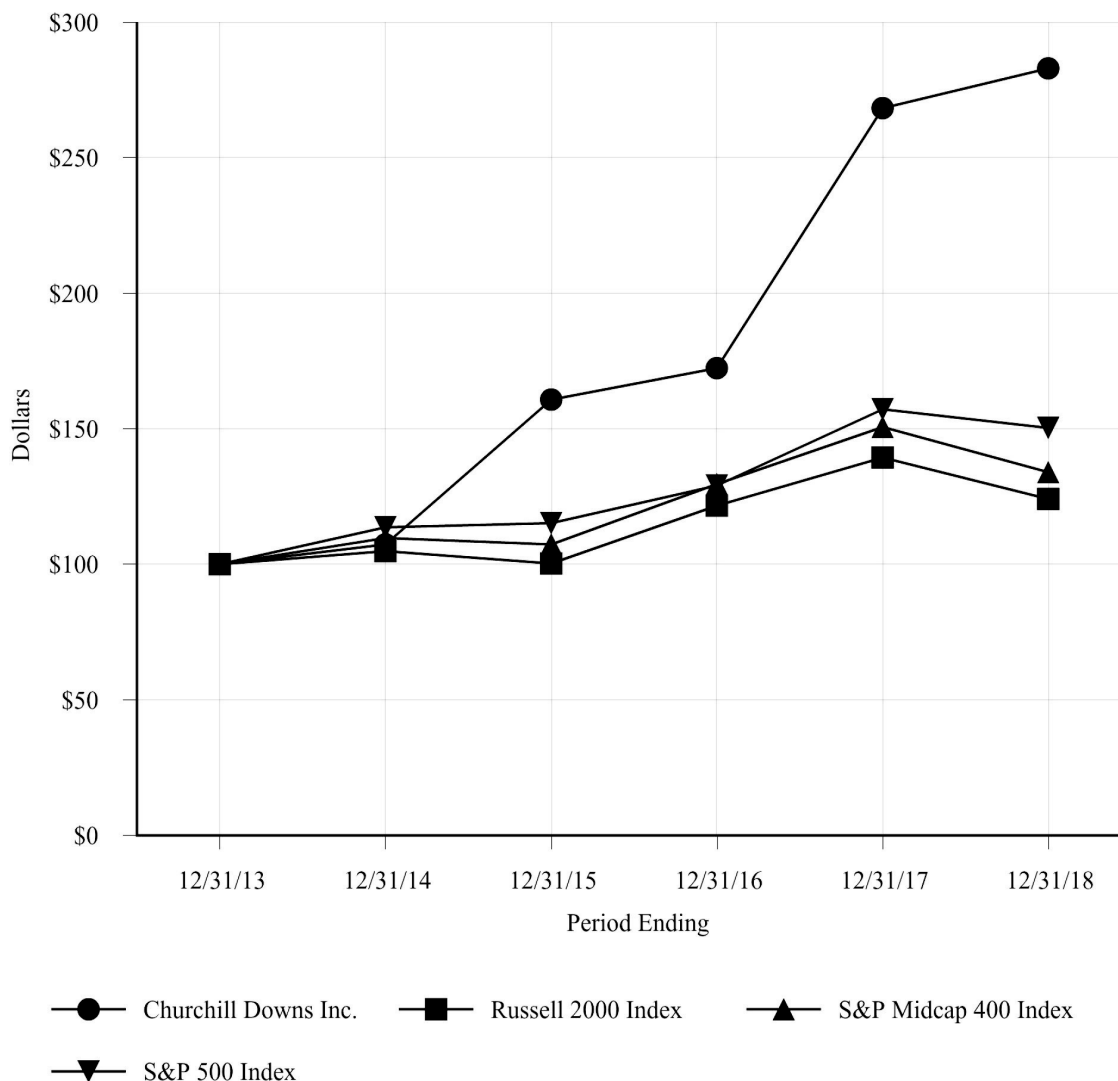
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased under the Plans or Programs (in millions)⁽¹⁾
10/1/18-10/31/2018	2,175	\$ 93.35	—	\$ 300.0
11/1/18-11/30/2018	128,133	\$ 89.54	128,007	288.5
12/1/18-12/31/2018	275,256	\$ 83.76	244,275	268.0
Total	405,564	\$ 85.64	372,282	

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

Shareholder Return Performance Graph

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

The following graph depicts the cumulative total shareholder return, assuming reinvestment of dividends, for the periods indicated for our Common Stock compared to the Russell 2000 Index, S&P Midcap 400 Index, and the S&P 500 Index. We consider the Russell 2000 Index to be our most comparable industry peer group index. We added the S&P Midcap 400 Index as a comparison this year. The S&P Midcap 400 Index includes the Company's results and also reflects companies which have a more comparable market capitalization than the S&P 500 Index.



	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>
Churchill Downs Inc.	\$ 100.00	\$ 107.40	\$ 160.72	\$ 172.37	\$ 268.33	\$ 282.99
Russell 2000 Index	\$ 100.00	\$ 104.89	\$ 100.26	\$ 121.63	\$ 139.45	\$ 124.09
S&P Midcap 400 Index	\$ 100.00	\$ 109.77	\$ 107.38	\$ 129.65	\$ 150.71	\$ 134.01
S&P 500 Index	\$ 100.00	\$ 113.69	\$ 115.26	\$ 129.05	\$ 157.22	\$ 150.32

ITEM 6. SELECTED FINANCIAL DATA

<i>(In millions, except per common share data)</i>	Years Ended December 31,				
	2018^{(a)(c)(e)}	2017^{(b)(c)(e)}	2016^{(c)(d)(e)}	2015^{(c)(e)}	2014^{(c)(e)}
Operations:					
Net revenue	\$ 1,009.0	\$ 882.6	\$ 822.4	\$ 798.6	\$ 798.3
Operating income	188.8	145.7	172.5	126.3	103.4
Income from continuing operations, net of tax	182.6	122.4	96.7	70.8	56.9
Income (loss) from discontinued operations, net of tax	170.2	18.1	11.4	(5.6)	(10.5)
Net income	<u>\$ 352.8</u>	<u>\$ 140.5</u>	<u>\$ 108.1</u>	<u>\$ 65.2</u>	<u>\$ 46.4</u>
Net income from continuing operations per common share:					
Basic	\$ 4.42	\$ 2.59	\$ 1.94	\$ 1.36	\$ 1.09
Diluted	\$ 4.39	\$ 2.55	\$ 1.92	\$ 1.34	\$ 1.08
Balance sheet data at period end:					
Total assets	\$ 1,725.2	\$ 2,359.4	\$ 2,254.4	\$ 2,277.4	\$ 2,356.3
Total debt, net	884.3	1,129.2	921.7	781.8	764.1
Total liabilities	1,251.9	1,719.1	1,569.4	1,660.2	1,656.3
Shareholders' equity	473.3	640.3	685.0	617.2	700.0
Shareholders' equity per common share	\$ 11.72	\$ 13.85	\$ 13.85	\$ 12.39	\$ 13.35
Other Data:					
Cash flows from operating activities	\$ 197.8	\$ 215.1	\$ 231.4	\$ 264.5	\$ 141.6
Capital maintenance expenditures	29.6	33.3	30.9	31.1	22.7
Capital project expenditures	119.8	83.6	23.8	12.4	31.8
Dividends declared per common share	\$ 0.543	\$ 0.507	\$ 0.440	\$ 0.383	\$ 0.333
Common stock repurchases	\$ 532.0	\$ 179.5	\$ 27.6	\$ 138.1	\$ 61.6

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

- (a) 2018 includes the \$54.9 million pre-tax gain on the Ocean Downs/Saratoga Transaction and the consolidated results of Ocean Downs after August 31, 2018.
- (b) 2017 includes a \$21.7 million impairment of tangible and intangible assets and a \$20.7 million loss on extinguishment of debt. 2017 also includes a \$57.7 million income tax benefit resulting primarily from the re-measurement of our net deferred tax liabilities as a result of the Tax Cuts and Jobs Acts ("Tax Act").
- (c) Due to the Big Fish Transaction, Big Fish Games is accounted for as discontinued operations from the date of acquisition on December 16, 2014 through December 31, 2018.
- (d) 2016 includes a \$23.7 million gain on Calder land sale.
- (e) All per share amounts presented were retroactively adjusted to reflect the three-for-one stock split approved by the Board of Directors for shareholders of record on January 11, 2019 and with an effective date of January 25, 2019. CHDN stock began trading at the split adjusted price on January 28, 2019.

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

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes included in Part II, Item 8-Financial Statements and Supplementary Data.

Our Business

We are an industry-leading racing, gaming and online entertainment company anchored by our iconic flagship event - *The Kentucky Derby*. We own and operate the largest legal online horseracing wagering platform in the U.S., through our TwinSpires business. We are a leader in brick-and-mortar casino gaming with approximately 9,500 gaming positions in seven states after our Presque Isle acquisition closed on January 11, 2019. In August 2018, we launched our retail BetAmerica Sportsbook at our two Mississippi casino properties and have announced plans to enter additional U.S. sports betting and iGaming markets. Derby City Gaming, the first historical racing machine ("HRM") facility in Louisville, Kentucky, was opened in September 2018 with 900 HRM machines. We were organized as a Kentucky corporation in 1928, and our principal executive offices are located in Louisville, Kentucky.

Key 2018 Transactions

Sale of Big Fish Games, Inc.

On November 29, 2017, the Company entered into a definitive Stock Purchase Agreement (the "Stock Purchase Agreement") to sell its mobile gaming subsidiary, Big Fish Games, Inc. ("Big Fish Games"), a Washington corporation, to Aristocrat Technologies, Inc. (the "Purchaser"), a Nevada corporation, an indirect, wholly owned subsidiary of Aristocrat Leisure Limited ("Aristocrat"), an Australian corporation (the "Big Fish Transaction"). On January 9, 2018, pursuant to the Stock Purchase Agreement, the Company completed the Big Fish Transaction. The Purchaser paid an aggregate consideration of \$990.0 million in cash in connection with the Big Fish Transaction, subject to customary adjustments for working capital and indebtedness and certain other adjustments as set forth in the Stock Purchase Agreement. As described in further detail in Part II, Item 8. Financial Statements and Supplementary Data, the Company has presented Big Fish Games as held for sale and discontinued operations in the accompanying consolidated financial statements and related notes.

Acquisition of Presque Isle and Pending Acquisition of Lady Luck Nemaocolin

On February 28, 2018, the Company entered into two separate definitive asset purchase agreements with Eldorado Resorts, Inc. ("ERI") to acquire substantially all of the assets and properties used in connection with the operation of Presque Isle Downs & Casino ("Presque Isle") in Erie, Pennsylvania (the "Presque Isle Transaction"), and Lady Luck Casino in Vicksburg, Mississippi (the "Lady Luck Vicksburg Transaction") for total aggregate consideration of approximately \$229.5 million, to be paid in cash, subject to certain working capital and other purchase price adjustments.

On July 6, 2018, the Company and ERI mutually agreed to terminate the asset purchase agreement with respect to the Lady Luck Vicksburg Transaction (the "Termination Agreement"). Concurrently with the entry into the Termination Agreement, the Company and ERI also entered into an amendment to the previously announced asset purchase agreement relating to the Presque Isle Transaction (the "Amendment"). Pursuant to the Amendment, the Company and ERI agreed to, among other things, cooperate in good faith, subject to certain conditions, to enter into an agreement pursuant to which the Company, for cash consideration of \$100,000, will receive certain assets and assume the rights and obligations of an affiliate of ERI to operate the Lady Luck Casino Nemaocolin in Farmington, Pennsylvania (the "Lady Luck Nemaocolin Transaction"). The Presque Isle Transaction reflects a stand-alone purchase price of \$178.9 million. Closing of the Presque Isle Transaction was also conditioned on the execution of the definitive agreement with respect to the Lady Luck Nemaocolin Transaction, which occurred on August 10, 2018 (the "Lady Luck Nemaocolin Agreement").

On January 11, 2019, the Company completed the Presque Isle Transaction. Subject to receipt of Pennsylvania regulatory approvals and other customary closing conditions, the Lady Luck Nemaocolin Transaction is expected to close in the first half of 2019.

Ocean Downs/Saratoga Transaction

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

As part of the Ocean Downs/Saratoga Transaction, Saratoga Harness Racing, Inc. ("SHRI") has agreed to grant the Company and its affiliates exclusive rights to operate online sports betting and iGaming on behalf of SHRI in New York and Colorado for a period of fifteen years from the date of the Liquidation Agreement, should such states permit SHRI to engage in sports betting and iGaming, subject to payment of commercially reasonable royalties to SHRI. Refer to Part II, Item 8. Financial Statements and Supplementary Data, for further information on the Ocean Downs/Saratoga Transaction.

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

On October 31, 2018, the Company announced that it had entered into a definitive purchase agreement pursuant to which the Company will acquire certain ownership interests of Midwest Gaming Holdings, LLC ("Midwest Gaming"), the parent company of Rivers Casino Des Plaines in Des Plaines, Illinois ("Rivers Des Plaines"), for cash (the "Sale Transaction").

The Sale Transaction will be comprised of (i) the Company's purchase of 100% of the ownership stake in Midwest Gaming held by affiliates and co-investors of Clairvest Group Inc. ("Clairvest") for approximately \$291.0 million and (ii) the Company's offer to purchase, on the same terms, additional units of Midwest Gaming held by High Plains Gaming, LLC ("High Plains"), an affiliate of Rush Street Gaming, LLC, and Casino Investors, LLC ("Casino Investors").

Following the closing of the Sale Transaction, the parties expect to enter into a recapitalization transaction pursuant to which Midwest Gaming will use approximately \$300.0 million in proceeds from new credit facilities to redeem, on a pro rata basis, additional Midwest Gaming units held by High Plains and Casino Investors (the "Recapitalization" and together with the Sale Transaction, the "Transactions").

Based on the results of the purchase of the Clairvest ownership stake and the purchase, on the same terms, of additional units held by High Plains and Casino Investors, the Company will acquire, at the closing of the Sale Transaction, approximately 42% of Midwest Gaming for aggregate cash consideration of approximately \$407.0 million. As a result of the Recapitalization, the Company's ownership of Midwest Gaming will increase to approximately 62%.

The Transactions are dependent on usual and customary closing conditions, including securing approval from the Illinois Gaming Board. The Transactions are expected to close in the first half of 2019.

Stock Split

On October 31, 2018, the Company announced a three-for-one split (the "Stock Split") of the Company's common stock for shareholders of record as of January 11, 2019. The additional shares resulting from the Stock Split were distributed on January 25, 2019. Our common stock began trading at the split-adjusted price on January 28, 2019. All share and per-share amounts in the Company's consolidated financial statements and related notes in Part II, Item 8. Financial Statements and Supplementary Data have been retroactively adjusted to reflect the effects of the Stock Split.

Key Indicators to Evaluate Business Results and Financial Condition

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

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

In the fourth quarter of 2018, we changed our TwinSpires segment name to Online Wagering as we continue to expand our online sports betting and iGaming platforms. Effective January 1, 2017, certain revenue previously included in our Corporate segment was deemed by management to be more closely aligned with our Online Wagering segment. The Company has not allocated corporate and other certain expenses to Big Fish Games consistent with the discontinued operations presentation in the accompanying consolidated statements of comprehensive income. Accordingly, the prior year amounts were reclassified to conform to this presentation.

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

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

Adjusted EBITDA excludes:

- Transaction expense, net which includes:
 - Acquisition and disposition related charges, including fair value adjustments related to earnouts and deferred payments;
 - Calder Racing exit costs; and
 - Other transaction expense, including legal, accounting and other deal-related expense;
- Stock-based compensation expense;
- Asset impairments;
- Gain on Ocean Downs/Saratoga Transaction;
- Gain on Calder land sale;
- Loss on extinguishment of debt;
- Pre-opening expenses; and
- Other charges, recoveries and expenses

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

Business Highlights

In 2018, we delivered another year of strong performance while positioning the Company for long-term sustainable value creation.

- We delivered strong growth in revenue and net income, diluted EPS, and Adjusted EBITDA.
 - Net revenue grew 14.3% to \$1,009.0 million;
 - Net income from continuing operations grew from \$122.4 million in 2017 to \$182.6 million in 2018;
 - Diluted net income per share from continuing operations grew from \$2.55 in 2017 to \$4.39 in 2018; and
 - Adjusted EBITDA grew 14.9% to \$328.8 million.
- Churchill Downs set all-time wagering records from all sources handle for Derby Week, The Kentucky Oaks Day, The Kentucky Derby Day, and The Kentucky Derby Race. We completed two capital projects during 2018 reflecting our commitment to grow this iconic event, to expand the Kentucky Derby capacity and pricing, and to enhance customer experiences.
- Our TwinSpires handle grew to \$1.4 billion, up 8.3% compared to 2017 as we outpaced the industry growth by 5.0 percentage points.
- Our wholly-owned Casino properties delivered strong organic growth from successful marketing and promotional activities. On August 31, 2018, we completed the Ocean Downs/Saratoga Transaction, which resulted in 100% ownership of Ocean Downs.
- We opened the first HRM facility in Louisville, Kentucky in September 2018, with 900 machines. We were awarded a license for Oak Grove, Kentucky as part of our joint venture with Keeneland to construct an estimated \$150 million facility, featuring up to 1,500 HRMs, a 125-room hotel, and a 1,200-person capacity grandstand.
- We announced the agreement to purchase Presque Isle in Erie, Pennsylvania and closed the transaction on January 11, 2019. We announced the agreement to acquire certain assets and assume the rights and obligations to operate the Lady Luck Nemaocolin in Farmington, Pennsylvania, which we expect to close in the first half of 2019.
- We announced an agreement to acquire certain ownership interests in Midwest Gaming, the parent company of Rivers Casino Des Plaines in Chicago, Illinois. After aggregate cash consideration of approximately \$407.0 million and completion of the Recapitalization, we anticipate owning approximately 62% of Midwest Gaming upon consummation of the Transactions, which is expected to occur in the first half of 2019.
- We launched our retail BetAmerica Sportsbook at our two Mississippi casino properties in August 2018 and we launched our online BetAmerica Sportsbook and BetAmerica Casino platform in New Jersey in February 2019. On February 6, 2019, we received approval to open a retail and online BetAmerica Sportsbook in Pennsylvania and are planning to launch our retail BetAmerica Sportsbook at our Presque Isle facility after additional approvals are obtained, including licensing for the related equipment and software providers.

- On January 9, 2018, the Company completed the Big Fish Transaction for aggregate cash consideration of \$990.0 million.
- On February 12, 2018, the Company completed a "modified Dutch Auction" tender offer and repurchased \$500.0 million of the Company's shares with a portion of our proceeds from the Big Fish Transaction.
- On October 30, 2018, the Board of Directors authorized a new common stock repurchase program of up to \$300.0 million which replaced the prior \$250.0 million program, and a three-for-one stock split of the Company's common stock with a proportionate increase in the number of our authorized shares of common stock effective on January 25, 2019.

As we look to 2019 and beyond, we remain committed to delivering strong financial results and long-term sustainable growth for our shareholders. We have strong cash flow and a solid balance sheet that supports organic growth as well as other strategic acquisitions and investment opportunities that will create long-term value for our shareholders.

Our Operations

We manage our operations through five segments: Racing, Online Wagering, Casino, Other Investments and Corporate. In the fourth quarter of 2018, we changed our TwinSpires segment name to Online Wagering as we continue to expand our online sports betting and iGaming platforms. As a result of the Big Fish Transaction, our Big Fish Games segment is now included as a discontinued operation.

Refer to Item 1. Business for more information on our operating segments and a description of our competition and government regulations and potential legislative changes that affect our business.

Consolidated Financial Results

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

<i>(in millions)</i>	Years Ended December 31,			'18 vs. '17 Change	'17 vs. '16 Change
	2018	2017	2016		
Net revenue	\$ 1,009.0	\$ 882.6	\$ 822.4	\$ 126.4	\$ 60.2
Operating income	188.8	145.7	172.5	43.1	(26.8)
Operating income margin	18.7%	16.5%	21.0%		
Net income from continuing operations	182.6	122.4	96.7	60.2	25.7
Net income	352.8	140.5	108.1	212.3	32.4
Adjusted EBITDA	328.8	286.2	252.3	42.6	33.9

Year Ended December 31, 2018, Compared to the Year Ended December 31, 2017

- Our net revenue increased \$126.4 million driven by a \$60.7 million increase from Casino primarily due to the consolidation of Ocean Downs as a result of the Ocean Downs/Saratoga Transaction effective August 31, 2018 and from successful marketing and promotional activities at our properties, a \$34.6 million increase from our Online Wagering segment due to an increase in handle, a \$17.0 million increase from Racing primarily due to a successful Kentucky Derby and Oaks week driven by increased ticket sales and handle, and a \$14.1 million increase in Other Investments primarily due to the opening of Derby City Gaming in September 2018.
- Our operating income increased \$43.1 million driven by a \$23.9 million increase from Casino primarily driven by the increase in net revenue, a \$21.7 million increase from a 2017 impairment of our iGaming and intangible assets associated with our Online Wagering segment and Arlington that did not recur in 2018, an \$8.7 million increase from our Online Wagering segment due to an increase in handle, and a \$4.6 million increase in Racing primarily due to a successful Kentucky Derby and Oaks week driven by increased ticket sales and handle. Partially offsetting these increases were an \$8.0 million increase in transaction expense, net primarily due to the termination fee relating to the Termination Agreement and Lady Luck Nemacolin Transaction and other acquisition-related expenses, a \$7.4 million increase in selling, general and administrative expense primarily driven by an increase in salaries and associated benefits and stock-based compensation, and a \$0.4 million increase in other expenses.
- Our net income from continuing operations increased \$60.2 million in 2018 as compared to 2017. Approximately \$32.6 million of the increase related to the net effect of the following items that impacted comparability: (1) a \$42.3 million after tax gain on the Ocean Downs/Saratoga Transaction; (2) \$26.5 million of non-cash after-tax asset impairments and loss on extinguishment of debt in 2017 that did not recur in 2018; (3) \$57.7 million provisional tax

benefit recorded in the fourth quarter of 2017 related to the re-measurement of our net deferred tax liabilities associated with the Tax Act which did not recur in 2018; (4) a \$27.0 million income tax benefit in 2018 as a result of the Tax Act which reduced the maximum federal corporate income tax rate from 35% to 21% effective January 1, 2018; and (5) a \$5.5 million after-tax decrease primarily related to higher transaction expenses and pre-opening costs in 2018 related to Derby City Gaming. The remaining \$27.6 million of the increase in net income from continuing operations was primarily due to a \$21.8 million increase driven by after-tax income from our operating segments and after-tax equity in income of our unconsolidated affiliates; and a \$5.8 million after-tax decrease in interest expense associated with lower outstanding debt balances.

- Our net income increased \$212.3 million due to a \$60.2 million increase in net income from continuing operations discussed above and a \$152.1 million increase in net income from discontinued operations. The increase in net income from discontinued operations was due to a \$168.3 million after tax gain on the Big Fish Transaction (\$219.5 million pre-tax), partially offset by a \$16.2 million decrease in Big Fish Games net income.
- Our Adjusted EBITDA increased \$42.6 million driven by a \$23.5 million increase from Casino primarily driven by strong performances of our wholly-owned Casino properties, a \$7.9 million increase from Racing primarily due to a successful Kentucky Derby and Oaks week driven by increased ticket sales and handle, a \$8.4 million increase at our Online Wagering segment driven by the increase in handle, a \$1.6 million increase from Other Investments primarily due to the opening of Derby City Gaming in September 2018, and a \$1.2 million increase in Corporate due to additional allocation of costs to our segments from Corporate.

Year Ended December 31, 2017, Compared to the Year Ended December 31, 2016

- Our net revenue increased \$60.2 million driven by a \$34.0 million increase from our Online Wagering segment due to a 16.9% increase in handle, a \$17.7 million increase from Casino due to successful marketing and promotional activities, a \$6.2 million increase in Racing primarily due to a strong Kentucky Derby and Oaks week performance, and a \$2.3 million increase from Other Investments.
- Our operating income decreased \$26.8 million driven by a \$23.7 million gain on Calder land sale in 2016 that did not recur in 2017, a \$21.7 million impairment of our iGaming and intangible assets associated with our Online Wagering segment and Arlington recorded in the fourth quarter of 2017, a \$3.7 million increase in selling, general and administrative expense primarily driven by an increase in salaries and associated benefits and stock-based compensation, a \$2.1 million increase in other expenses primarily due to the elimination of our Bluff contingent liability in 2016 that did not recur in 2017, and a \$0.2 million increase in other sources. Partially offsetting these decreases in operating income were an \$11.7 million increase from our Casino segment performance, a \$10.5 million increase at our Online Wagering segment driven by an increase in handle growth, a \$1.4 million increase from Racing, and a \$1.0 million increase from Other Investments.
- Our net income from continuing operations increased \$25.7 million in 2017 as compared to 2016. Approximately \$12.9 million of the increase related to the net effect of the following items that impacted comparability: (1) a \$57.7 million provisional tax benefit recorded in the fourth quarter of 2017 related the re-measurement of our net deferred tax liabilities associated with the Tax Act, which was partially offset by (2) \$26.5 million of non-cash after-tax asset impairments and loss on extinguishment of debt in the fourth quarter of 2017 that did not occur in 2016, (3) a \$14.8 million after-tax gain on Calder land sale in 2016 that did not recur in 2017, and (4) a \$3.5 million after-tax increase in other expenses due to increased transaction expenses and the elimination of our Bluff contingent liability in 2016 that did not recur in 2017. The remaining \$12.8 million of the increase in net income from operations was primarily due to a \$16.3 million increase driven by after-tax income from our operating segments and after-tax equity in income from our unconsolidated affiliates, partially offset by a \$3.5 million after-tax increase in interest expense associated with higher outstanding debt balances.
- Our net income increased \$32.4 million due to a \$25.7 million increase related to net income from continuing operations discussed above and a \$6.7 million increase in net income from discontinued operations related to Big Fish Games.
- Our Adjusted EBITDA increased \$33.9 million driven by a \$20.2 million increase in Casino due to our unconsolidated investments and organic growth at certain properties, an \$8.2 million increase from our Online Wagering segment due to an increase in handle, a \$4.8 million increase from Racing due to a strong Kentucky Derby and Oaks week performance, and a \$1.0 million increase from Other Investments. Partially offsetting these increases was a \$0.3 million decrease from Corporate.

Financial Results by Segment

Net Revenue by Segment

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

<i>(in millions)</i>	Years Ended December 31,			'18 vs. '17 Change	'17 vs. '16 Change
	2018	2017	2016		
Racing:					
Churchill Downs	\$ 193.7	\$ 172.7	\$ 165.2	\$ 21.0	\$ 7.5
Arlington	61.7	63.5	60.8	(1.8)	2.7
Fair Grounds	37.4	37.9	39.5	(0.5)	(1.6)
Calder Racing	2.6	2.5	2.6	0.1	(0.1)
Total Racing	295.4	276.6	268.1	18.8	8.5
Online Wagering	291.5	256.7	222.9	34.8	33.8
Casino:					
Oxford	102.0	90.8	84.6	11.2	6.2
Calder	96.1	85.4	79.1	10.7	6.3
Fair Grounds Slots and VSI	81.9	74.8	73.8	7.1	1.0
Riverwalk	54.5	48.2	46.1	6.3	2.1
Harlow's	50.2	50.0	48.4	0.2	1.6
Ocean Downs	25.9	—	—	25.9	—
Saratoga	0.6	1.3	0.8	(0.7)	0.5
Total Casino	411.2	350.5	332.8	60.7	17.7
Other Investments	37.8	23.7	20.8	14.1	2.9
Corporate	—	—	—	—	—
Eliminations	(26.9)	(24.9)	(22.2)	(2.0)	(2.7)
Net Revenue	\$ 1,009.0	\$ 882.6	\$ 822.4	\$ 126.4	\$ 60.2

Year Ended December 31, 2018, Compared to the Year Ended December 31, 2017

- Racing revenue increased \$18.8 million driven by a \$21.0 million increase at Churchill Downs primarily due to a successful Kentucky Derby and Oaks week performance. Partially offsetting this increase were a \$1.8 million decrease at Arlington primarily due to lower meet attendance as a result of inclement weather and a \$0.4 million decrease from other sources.
- Online Wagering revenue increased \$34.8 million primarily due to handle growth of 8.3% and the adoption of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASC 606"), which resulted in modifications between the classification of net revenue and marketing and content operating expenses.
- Casino revenue increased \$60.7 million driven by a \$25.9 million increase due to consolidating Ocean Downs as a result of the Ocean Downs/Saratoga Transaction effective August 31, 2018; an \$11.2 million increase at Oxford due to the hotel and expanded gaming floor which opened in December 2017; a \$10.7 million increase at Calder due to capital improvements and the temporary closure of a competitor due to Hurricane Irma which re-opened during the second quarter of 2018; a \$7.1 million increase at our Louisiana properties, and a \$6.3 million increase at Riverwalk, both of which resulted from successful promotional activities; and a \$0.2 million increase from Harlow's. Partially offsetting these increases was a \$0.7 million decrease from Saratoga due to the Ocean Downs/Saratoga Transaction, which resulted in us having no further equity interest or management involvement in Saratoga New York or Saratoga Colorado effective August 31, 2018.
- Other Investments revenue increased \$14.1 million primarily due to the opening of Derby City Gaming in September 2018.

Year Ended December 31, 2017, Compared to the Year Ended December 31, 2016

- Racing revenue increased \$8.5 million driven by a \$7.5 million increase at Churchill Downs primarily from a successful Kentucky Derby and Oaks week performance and a \$2.7 million increase at Arlington driven by an increase in handle

and admissions. Partially offsetting these increases were a \$1.6 million decrease in Fair Grounds revenue primarily due to the impact of a contagious equine disease outbreak which quarantined horses causing limited field sizes in the first quarter of 2017 and a \$0.1 million decrease from other sources.

- Online Wagering revenue increased \$33.8 million primarily due to handle growth of \$185.7 million, or 16.9%.
- Casino revenue increased \$17.7 million driven by a \$6.3 million increase in Calder, a \$6.2 million increase at Oxford, a \$2.1 million increase at Riverwalk, a \$1.6 million increase at Harlow's, a \$1.0 million increase at our Louisiana properties, and a \$0.5 million increase from other sources, all of which resulted from successful marketing and promotional activities.
- Other Investments revenue increased \$2.9 million due to increased equipment sales and higher totalisator fees from new customers at United Tote.

Additional Statistical Data by Segment

The following tables provide additional statistical data for our segments:

Racing and Online Wagering ⁽¹⁾

<i>(\$ in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Racing			
Churchill Downs			
Total handle	\$ 652.2	\$ 614.9	\$ 593.7
Net pari-mutuel revenue	\$ 67.6	\$ 63.1	\$ 61.5
Commission %	10.4%	10.3%	10.4%
Arlington			
Total handle	\$ 380.7	\$ 385.3	\$ 375.2
Net pari-mutuel revenue	\$ 48.6	\$ 49.9	\$ 48.2
Commission %	12.8%	13.0%	12.8%
Fair Grounds			
Total handle	\$ 276.3	\$ 274.5	\$ 289.5
Net pari-mutuel revenue	\$ 27.8	\$ 28.1	\$ 29.3
Commission %	10.1%	10.2%	10.1%
Total Racing			
Total handle	\$ 1,309.2	\$ 1,274.7	\$ 1,258.4
Net pari-mutuel revenue	\$ 144.0	\$ 141.1	\$ 139.0
Commission %	11.0%	11.1%	11.0%
Online Wagering			
Total handle	\$ 1,389.6	\$ 1,282.6	\$ 1,096.9
Net pari-mutuel revenue	\$ 252.9	\$ 234.8	\$ 201.8
Commission %	18.2%	18.3%	18.4%
Eliminations ⁽²⁾			
Total handle	\$ (170.2)	\$ (148.8)	\$ (128.4)
Net pari-mutuel revenue	\$ (20.8)	\$ (18.8)	\$ (16.6)
Total			
Handle	\$ 2,528.6	\$ 2,408.5	\$ 2,226.9
Net pari-mutuel revenue	\$ 376.1	\$ 357.1	\$ 324.2
Commission %	14.9%	14.8%	14.6%

(1) Total handle and net pari-mutuel revenue generated by Velocity are not included in total handle and net pari-mutuel revenue from Online Wagering.

(2) Eliminations include the elimination of intersegment transactions.

Casino Activity

Certain key operating statistics specific to the gaming industry are included in our statistical data for our Casino segment. Our slot facilities report slot handle as a volume measurement, defined as the gross amount wagered for the period cited. Net gaming revenue includes slot, VLT, table games, and sports wagering revenue, and is net of customer freeplay; however, it excludes other ancillary property revenue such as food and beverage, ATM, hotel and other miscellaneous revenue.

<i>(in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Oxford			
Slot handle	\$ 969.6	\$ 828.2	\$ 774.0
Net slot revenue	77.7	68.9	64.9
Net gaming revenue	95.1	86.3	80.4
Calder			
Slot handle	\$ 1,368.3	\$ 1,191.7	\$ 1,044.7
Net slot revenue	92.0	81.8	75.8
Net gaming revenue	91.9	81.7	75.7
Fair Grounds Slots and VSI⁽¹⁾			
Slot handle	\$ 426.6	\$ 411.4	\$ 405.5
Net slot revenue	36.9	35.5	35.8
Net gaming revenue	80.6	73.6	72.5
Riverwalk			
Slot handle	\$ 672.0	\$ 616.2	\$ 485.6
Net slot revenue	45.2	41.1	38.7
Net gaming revenue	51.9	46.0	43.7
Harlow's			
Slot handle	\$ 585.6	\$ 553.3	\$ 535.1
Net slot revenue	44.0	43.5	42.0
Net gaming revenue	47.7	47.3	45.7
Ocean Downs⁽²⁾			
Slot handle	\$ 249.5	\$ —	\$ —
Net slot revenue	21.5	—	—
Net gaming revenue	24.3	—	—
Total net gaming revenue	\$ 391.5	\$ 334.9	\$ 318.0

(1) Fair Grounds Slots and VSI does not include video poker in reported slot handle and net slot revenue. Net gaming revenue does include video poker.

(2) On August 31, 2018, we completed the Ocean Downs/Saratoga Transaction. The activity for Ocean Downs Casino represents the results from the date of consolidation through December 31, 2018. Ocean Downs slot handle and net slot revenue includes VLT.

Consolidated Operating Expense

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

<i>(in millions)</i>	Years Ended December 31,			'18 vs. '17 Change	'17 vs. '16 Change
	2018	2017	2016		
Taxes & purses	\$ 226.7	\$ 197.1	\$ 186.7	\$ 29.6	\$ 10.4
Content expense	142.1	117.8	103.0	24.3	14.8
Salaries & benefits	127.5	116.8	112.0	10.7	4.8
Selling, general and administrative expense	90.5	83.1	79.4	7.4	3.7
Depreciation and amortization	63.6	56.0	58.4	7.6	(2.4)
Marketing & advertising expense	28.8	24.8	23.1	4.0	1.7
Transaction expense, net	10.3	2.3	0.2	8.0	2.1
Impairment of tangible and other intangible assets	—	21.7	—	(21.7)	21.7
Calder land sale	—	—	(23.7)	—	23.7
Other operating expense	130.7	117.3	110.8	13.4	6.5
Total expense	<u>\$ 820.2</u>	<u>\$ 736.9</u>	<u>\$ 649.9</u>	<u>\$ 83.3</u>	<u>\$ 87.0</u>
Percent of revenue	81%	83%	79%		

Year Ended December 31, 2018, Compared to the Year Ended December 31, 2017

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses increased \$29.6 million due to a \$20.5 million increase generated by our Casino segment associated with an increase in slot handle and the consolidation of Ocean Downs as a result of the Ocean Downs/Saratoga Transaction effective August 31, 2018, and a \$9.1 million increase in purses and taxes primarily related to our new Derby City Gaming facility which opened in September 2018.
- Content expense increased \$24.3 million driven by the increase in our Online Wagering handle, the adoption of ASC 606 which resulted in modifications between the classification of net revenue and content expense, and an increase in host fees for certain jurisdictions.
- Salaries and benefits expense increased \$10.7 million driven by a \$3.5 million increase related to the consolidation of Ocean Downs as a result of the Ocean Downs/Saratoga Transaction effective August 31, 2018, a \$2.8 million increase associated with the opening of Derby City Gaming in September 2018, and \$4.4 million primarily driven by additional personnel cost and related benefits primarily at our Churchill Downs and Oxford properties.
- Selling, general and administrative expense increased \$7.4 million driven primarily by a \$4.6 million increase associated with the opening of Derby City Gaming in September 2018, a \$1.6 million increase related to the consolidation of Ocean Downs as a result of the Ocean Downs/Saratoga Transaction effective August 31, 2018, and a \$1.5 million increase in stock-based compensation expense. Partially offsetting these increases was a decrease of \$0.3 million from other sources.
- Depreciation and amortization expense increased \$7.6 million driven by additional capital expenditures placed in service for Churchill Downs, the consolidation of Ocean Downs as a result of the Ocean Downs/Saratoga Transaction effective August 31, 2018, and the opening of the Derby City Gaming facility and related capital assets being placed into service during the year.
- Marketing and advertising expense increased \$4.0 million primarily from a \$1.9 million increase at Churchill Downs associated with the Kentucky Derby and Oaks week, a \$1.6 million increase associated with the opening of Derby City Gaming in September 2018, and a \$0.7 million increase related to the consolidation of Ocean Downs as a result of the Ocean Downs/Saratoga Transaction effective August 31, 2018. Marketing and advertising expense was also impacted by the adoption of ASC 606, which resulted in modifications between the classification of net revenue and marketing expense and accounted for a \$2.1 million decrease for our Online Wagering segment, partially offset by a \$1.9 million increase at our Louisiana properties.
- Transaction expense, net increased \$8.0 million primarily due to the payment of the termination fee of \$5.0 million pursuant to the Termination Agreement in connection with the Lady Luck Nemaquin Transaction and other transaction expenses.

- Impairment of tangible and intangible assets decreased \$21.7 million due to a \$13.7 million non-cash impairment charge related to certain iGaming assets, a \$4.7 million non-cash impairment charge related to our Bluff trademark, and a \$3.3 million non-cash impairment charge related to our Illinois Horseracing Equity Trust, all of which occurred in 2017, and did not recur in 2018.
- Other operating expense includes maintenance, utilities, food and beverage costs, property taxes and insurance and other operating expenses. Other operating expense increased \$13.4 million driven by a \$4.1 million increase in maintenance and other expenses primarily at Churchill Downs, a \$3.2 million increase from the Derby City Gaming opening in September 2018, a \$2.1 million increase in the Online Wagering segment driven by the increase in net revenue, a \$2.2 million increase from the consolidation of Ocean Downs as a result of the Ocean Downs/Saratoga Transaction effective August 31, 2018, and a \$1.8 million increase from other sources.

Year Ended December 31, 2017, Compared to the Year Ended December 31, 2016

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses increased \$10.4 million driven by a \$5.2 million increase in taxes for our Casino segment associated with an increase in slot handle, a \$3.1 million increase in TwinSpires pari-mutuel taxes in our Online Wagering segment due to the increase in handle and a \$2.1 million increase from other sources.
- Content expense increased \$14.8 million driven by the 16.9% increase in TwinSpires handle growth in our Online Wagering segment.
- Salaries and benefits expense increased \$4.8 million primarily driven by additional personnel cost and related benefits.
- Selling, general and administrative expense increased \$3.7 million driven primarily by a \$2.7 million increase in stock-based compensation expense and a \$2.5 million increase from other sources. Partially offsetting these increases was a \$1.5 million decrease associated with 2016 expense from potential federal tax penalties from untimely submission of informational returns which did not recur in 2017.
- Depreciation and amortization expense decreased \$2.4 million driven primarily by a decrease at Harlow's associated with fully amortized intangible assets.
- Marketing and advertising expense increased \$1.7 million driven by increased TwinSpires marketing spend in our Online Wagering segment associated with an increase in handle.
- Transaction expense, net increased \$2.1 million driven by a \$2.3 million benefit recognized in 2016 related to the elimination of a contingent liability established in 2012 for the acquisition of Bluff and a \$1.5 million increase relating to our acquisition of BetAmerica in April 2017. Partially offsetting these increases was a \$1.7 million decrease in Calder Racing exit costs driven by lower costs associated with the grandstand demolition.
- Impairment of tangible and intangible assets increased \$21.7 million driven by a \$13.7 million non-cash impairment charge related to certain iGaming assets, a \$4.7 million non-cash impairment charge related to our Bluff trademark, and a \$3.3 million non-cash impairment charge related to our Illinois Horseracing Equity Trust.
- Calder land sale decreased \$23.7 million from the 2016 sale of 61 acres of excess land at Calder, which represented proceeds of \$25.6 million less the book value of \$1.9 million.
- Other operating expense includes utilities, maintenance, food and beverage costs, property taxes and insurance and other operating expense. Other operating expense increased \$6.5 million primarily driven by a \$2.2 million increase in Online Wagering processing expense related to handle growth, a \$1.6 million increase in insurance and property taxes, a \$0.7 million increase in utilities, and a \$2.0 million increase related to other expenses.

Corporate Allocated Expense

The table below presents Corporate allocated expense included in the Adjusted EBITDA of each of the operating segments, excluding corporate stock-based compensation:

<i>(in millions)</i>	Years Ended December 31,			'18 vs. '17 Change	'17 vs. '16 Change
	2018	2017	2016		
Racing	\$ (7.0)	\$ (6.1)	\$ (6.0)	\$ (0.9)	\$ (0.1)
Online Wagering	(6.2)	(5.5)	(5.4)	(0.7)	(0.1)
Casino	(9.3)	(7.5)	(6.9)	(1.8)	(0.6)
Other Investments	(2.4)	(1.5)	(1.6)	(0.9)	0.1
Corporate allocated expense	24.9	20.6	19.9	4.3	0.7
Total Corporate allocated expense	\$ —	\$ —	\$ —	\$ —	\$ —

Adjusted EBITDA

We believe that the use of Adjusted EBITDA as a key performance measure of the results of operations enables management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. Adjusted EBITDA is a supplemental measure of our performance that is not required by or presented in accordance with GAAP. Adjusted EBITDA should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with GAAP) as a measure of our operating results.

The Company has not allocated corporate and other certain expenses to Big Fish Games consistent with the discontinued operations presentation in the accompanying consolidated statements of comprehensive income. Accordingly, the prior year amounts were reclassified to conform to this presentation. Effective January 1, 2017, certain revenue previously included in our Corporate segment was deemed by management to be more closely aligned with our Online Wagering segment.

<i>(in millions)</i>	Year Ended December 31,			'18 vs. '17 Change	'17 vs. '16 Change
	2018	2017	2016		
Racing	\$ 92.4	\$ 84.5	\$ 79.7	\$ 7.9	\$ 4.8
Online Wagering	72.8	64.4	56.2	8.4	8.2
Casino	169.5	146.0	125.8	23.5	20.2
Other Investments	5.3	3.7	2.7	1.6	1.0
Corporate ^(a)	(11.2)	(12.4)	(12.1)	1.2	(0.3)
Adjusted EBITDA	\$ 328.8	\$ 286.2	\$ 252.3	\$ 42.6	\$ 33.9

(a) The Corporate segment includes corporate and other certain expenses of \$3.6 million in 2017 and \$3.1 million in 2016 that have not been allocated to Big Fish Games as a result of the Big Fish Transaction and the Big Fish Games segment reported as held for sale and discontinued operations in the accompanying consolidated financial statements and related notes.

Year Ended December 31, 2018, Compared to the Year Ended December 31, 2017

- Racing Adjusted EBITDA increased \$7.9 million due to a \$9.3 million increase at Churchill Downs primarily from a successful Kentucky Derby and Oaks week driven by increased ticket sales and handle. This increase was partially offset by a \$1.1 million decrease at Arlington primarily due to decreased net revenue from lower meet attendance as a result of inclement weather and a \$0.3 million decrease from other sources.
- Online Wagering Adjusted EBITDA increased \$8.4 million driven by an 8.3% growth in handle.
- Casino Adjusted EBITDA increased \$23.5 million driven by a \$23.1 million increase primarily from increases in net revenue from our wholly-owned Casino properties, including a \$7.2 million increase at Ocean Downs, a \$4.9 million increase at Riverwalk, a \$4.8 million increase at Calder, a \$3.2 million increase at Oxford, and a \$2.2 million increase at our Louisiana properties. Harlow's also increased \$0.8 million primarily due to favorable insurance reserve adjustments. Our equity investments contributed the remaining \$0.4 million increase.
- Other Investments increased \$1.6 million driven primarily due to the opening of Derby City Gaming in September 2018.
- Corporate increased \$1.2 million due to an increase in our allocation of costs to our operating segments.

Year Ended December 31, 2017, Compared to the Year Ended December 31, 2016

- Racing Adjusted EBITDA increased \$4.8 million due to a \$4.5 million increase at Churchill Downs primarily from a successful Kentucky Derby and Oaks week performance and a \$1.7 million increase at Arlington driven by increased handle and admissions. Partially offsetting these increases were a \$0.7 million decrease at Fair Grounds primarily from a contagious equine disease which quarantined horses causing limited fields and remediation expenses and a \$0.7 million decrease from Calder Racing due to increased expenses.
- Online Wagering Adjusted EBITDA increased \$8.2 million driven by handle growth of 16.9%.
- Casino Adjusted EBITDA increased \$20.2 million driven by a \$5.1 million increase from our wholly-owned properties, including a \$2.1 million increase at our Mississippi properties, a \$1.9 million increase at Oxford, and a \$1.3 million increase at Calder, all of which resulted from successful marketing and promotional activities, partially offset by a \$0.2 million decrease from all other wholly-owned properties combined. Also contributing to the increase was a \$15.1 million increase in our equity investments, which was partially attributable to the addition of Ocean Downs in January 2017.
- Other Investments increased \$1.0 million driven primarily by incremental international equipment sales and higher totalisator fees from new customers of United Tote.

Reconciliation of Comprehensive Income to Adjusted EBITDA

<i>(in millions)</i>	Years Ended December 31,			'18 vs. '17 Change	'17 vs. '16 Change
	2018	2017	2016		
Comprehensive income	\$ 353.2	\$ 140.4	\$ 107.5	\$ 212.8	\$ 32.9
Foreign currency translation, net of tax	(0.6)	0.1	(0.2)	(0.7)	0.3
Net change in pension benefits, net of tax	0.2	—	0.8	0.2	(0.8)
Net income	<u>352.8</u>	<u>140.5</u>	<u>108.1</u>	<u>212.3</u>	<u>32.4</u>
Income from discontinued operations, net of tax	(170.2)	(18.1)	(11.4)	(152.1)	(6.7)
Income from continuing operations, net of tax	182.6	122.4	96.7	60.2	25.7
Additions:					
Depreciation and amortization	63.6	56.0	58.4	7.6	(2.4)
Interest expense	40.1	49.3	43.7	(9.2)	5.6
Loss on extinguishment of debt	—	20.7	—	(20.7)	20.7
Income tax provision (benefit)	51.3	(19.9)	50.7	71.2	(70.6)
EBITDA	<u>\$ 337.6</u>	<u>\$ 228.5</u>	<u>\$ 249.5</u>	<u>\$ 109.1</u>	<u>\$ (21.0)</u>
Adjustments to EBITDA:					
Selling, general and administrative:					
Stock-based compensation expense	\$ 17.7	\$ 16.0	\$ 13.3	\$ 1.7	\$ 2.7
Other, net	(0.6)	0.5	2.5	(1.1)	(2.0)
Pre-opening expense	4.8	0.5	—	4.3	0.5
Other income, expense:					
Interest, depreciation and amortization expense related to equity investments	13.9	16.7	10.0	(2.8)	6.7
Other charges and recoveries, net	—	—	0.5	—	(0.5)
Gain on Ocean Downs/Saratoga transaction	(54.9)	—	—	(54.9)	—
Transaction expense, net	10.3	2.3	0.2	8.0	2.1
Impairment of tangible and other intangible assets	—	21.7	—	(21.7)	21.7
Gain on Calder land sale	—	—	(23.7)	—	23.7
Total adjustments to EBITDA	<u>(8.8)</u>	<u>57.7</u>	<u>2.8</u>	<u>(66.5)</u>	<u>54.9</u>
Adjusted EBITDA	<u>\$ 328.8</u>	<u>\$ 286.2</u>	<u>\$ 252.3</u>	<u>\$ 42.6</u>	<u>\$ 33.9</u>

Consolidated Balance Sheet

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

<i>(in millions)</i>	As of December 31,		'18 vs. '17 Change
	2018	2017	
Total assets	\$ 1,725.2	\$ 2,359.4	\$ (634.2)
Total liabilities	1,251.9	1,719.1	(467.2)
Total shareholders' equity	473.3	640.3	(167.0)

- Total assets decreased \$634.2 million driven by an \$823.4 million decrease in long-term assets of discontinued operations held for sale and a \$69.1 million decrease in current assets of discontinued operations held for sale due to the Big Fish Transaction, a \$63.2 million decrease in investment in and advances to unconsolidated affiliates primarily due to the Ocean Downs/Saratoga Transaction, a \$20.8 million decrease in accounts receivable, net primarily due to the adoption of ASC 606, and an \$18.6 million decrease in income tax receivable due to timing of payments. Partially offsetting these decreases were a \$149.5 million increase in property and equipment, net due to the Ocean Downs/Saratoga Transaction and our capital project and maintenance expenditures partially offset by an increase in depreciation expense, a \$94.6 million increase in other intangible assets primarily due to the Ocean Downs/Saratoga Transaction, an \$81.6

million increase in cash and cash equivalents primarily due to the net proceeds received from the Big Fish Transaction partially offset by repurchases of common stock, a \$20.4 million increase in goodwill due to the Ocean Downs/Saratoga Transaction, and a \$14.8 million increase in all other assets.

- Total liabilities decreased \$467.2 million driven by a \$245.6 million decrease in long-term debt primarily due to the paydown on the Revolver (as defined below) from the Big Fish Transaction proceeds in January 2018, a \$188.2 million decrease in current liabilities of discontinued operations held for sale and a \$54.8 million decrease in non-current liabilities of discontinued operations held for sale due to the Big Fish Transaction, and a \$23.0 million decrease in current deferred revenue primarily due to the adoption of ASC 606. Partially offsetting these decreases were a \$37.6 million increase in deferred income taxes primarily due to the Ocean Downs/Saratoga Transaction, and a \$6.8 million increase in all other liabilities.
- Total shareholders' equity decreased \$167.0 million driven by \$549.5 million in repurchases of common stock and \$23.0 million from our annual dividend declared in December 2018. Partially offsetting these decreases were \$352.8 million in current year net income, a \$29.7 million increase as a result of the adoption of ASC 606, \$21.1 million in stock-based compensation, and a \$1.9 million increase in other equity components.

Liquidity and Capital Resources

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

<i>(in millions)</i>	Year Ended December 31,			'18 vs. '17 Change	'17 vs. '16 Change
	2018	2017	2016		
Cash Flows from:					
Operating activities	\$ 197.8	\$ 215.1	\$ 231.4	\$ (17.3)	\$ (16.3)
Investing activities	824.1	(153.6)	(50.7)	977.7	(102.9)
Financing activities	(933.3)	(59.5)	(201.9)	(873.8)	142.4

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

Year Ended December 31, 2018, Compared to the Year Ended December 31, 2017

- Cash provided by operating activities decreased \$17.3 million driven by a \$65.6 million decrease related to the loss of Big Fish Games operating income and other related operating cash flows due to the Big Fish Games Transaction. Partially offsetting this decrease was a \$27.3 million decrease in cash paid for income taxes due to timing, a \$16.4 million decrease in cash paid for interest as a result of lower outstanding debt balances and the timing of interest payments on our 2028 Senior Notes (as defined below), and \$4.6 million of increased cash provided by operating activities from continuing operations. We anticipate that cash flows from operations over the next twelve months will be adequate to fund our business operations and capital expenditures.
- Cash provided by investing activities increased \$977.7 million driven by a \$970.7 million increase in proceeds from the Big Fish Transaction, a \$37.3 million increase from our acquisition of businesses primarily driven by the BetAmerica acquisition in April 2017 and the Ocean Downs/Saratoga Transaction in August 2018, and a \$24.0 million decrease in equity investment due to Ocean Downs in January 2017 that did not recur in 2018. Partially offsetting these increases were an increase in capital project expenditures of \$36.2 million primarily related to projects at Churchill Downs, a \$13.6 million decrease in receivable from escrow, and \$4.5 million decrease in other investing activities.
- Cash used in financing activities increased \$873.8 million primarily driven by a \$460.6 million increase in net repayments under our long-term debt obligations, a \$356.1 million increase in share repurchases, a \$54.7 million increase from the repayment of Ocean Downs debt as a result of the Ocean Downs/Saratoga Transaction, a \$26.4 million increase in Big Fish Games earnout and deferred payments, and a \$5.7 million increase from other financing activities. Partially offsetting these increases were a \$16.1 million call premium in 2017 for the 2021 Senior Notes (as defined below) which did not recur in 2018, and a decrease of \$13.6 million in debt issuance costs.

Year Ended December 31, 2017, Compared to the Year Ended December 31, 2016

- Cash provided by operating activities decreased \$16.3 million driven by a \$28.0 million increase to income tax receivable related to estimated payments in 2017, a \$15.1 million increase in accounts receivable primarily driven by Big Fish Games platform fees and a \$14.0 million increase in other operating activities. Partially offsetting these decreases were a \$23.5 million decrease in gain on sale of assets from the Calder land sale in 2016 and a \$17.3 million decrease in Big Fish Games earnout payments.
- Cash used in investing activities increased \$102.9 million driven by \$59.8 million in higher capital project expenditures primarily related to projects at Churchill Downs and the hotel at Oxford, a \$16.0 million increase in equity investment due to Ocean Downs, a \$24.2 million increase for the acquisition of BetAmerica, and a \$2.9 million increase from other investing activities.
- Cash used in financing activities decreased \$142.4 million primarily driven by a \$256.5 million decrease in the use of cash for the Big Fish Games earnout and deferred payments, and a \$75.9 million increase in net borrowings under long-term debt obligations. Partially offsetting these decreases were a \$151.9 million increase in stock repurchases, a \$16.1 million increase related to the call premium on the redemption of our 2021 Senior Notes (as defined below), a \$13.0 million increase in debt issuance costs, and a \$9.0 million increase from other financing activities.

Credit Facilities and Indebtedness

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

<i>(in millions)</i>	As of December 31,		'18 vs. '17 Change
	2018	2017	
2017 Credit Agreement:			
Term Loan B due 2024	\$ 396.0	\$ 400.0	\$ (4.0)
Revolving Credit Facility	—	239.0	(239.0)
Swing line of credit	—	3.0	(3.0)
Total 2017 Credit Agreement	<u>396.0</u>	<u>642.0</u>	<u>(246.0)</u>
2028 Senior Notes	500.0	500.0	—
Total debt	<u>896.0</u>	<u>1,142.0</u>	<u>(246.0)</u>
Current maturities of long-term debt	4.0	4.0	—
Total debt, net of current maturities	<u>892.0</u>	<u>1,138.0</u>	<u>(246.0)</u>
Bond premium and debt issuance costs, net	(11.7)	(12.8)	1.1
Net debt	<u>\$ 880.3</u>	<u>\$ 1,125.2</u>	<u>\$ (244.9)</u>

2017 Credit Agreement

On December 27, 2017, we entered into a senior secured credit agreement (the "2017 Credit Agreement") with a syndicate of lenders. The 2017 Credit Agreement replaced our 2014 senior secured credit agreement (the "2014 Credit Agreement"). The 2017 Credit Agreement provides for a \$700.0 million senior secured revolving credit facility due 2022 (the "Revolver") and a \$400.0 million senior secured term loan B due 2024 (the "Term Loan B"). Included in the maximum borrowing of \$700.0 million under the Revolver is a letter of credit sub facility not to exceed \$50.0 million and a swing line commitment up to a maximum principal amount of \$50.0 million. We had \$693.1 million of available borrowing capacity, after consideration of \$6.9 million in outstanding letters of credit, under the Revolver as of December 31, 2018. The 2017 Credit Amendment is secured by substantially all assets of the Company.

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

The 2017 Credit Agreement contains certain customary affirmative and negative covenants, which include limitations on liens, investments, indebtedness, dispositions, mergers and acquisitions, the making of restricted payments, changes in the nature of business, changes in fiscal year, and transactions with affiliates. The 2017 Credit Agreement also contains financial covenants providing for the maintenance of a maximum consolidated secured net leverage ratio and the maintenance of a minimum consolidated interest coverage ratio. The Company was in compliance with all applicable covenants in the 2017 Credit Agreement at December 31, 2018. At December 31, 2018, the financial ratios under our 2017 Credit Agreement were as follows:

	<u>Actual</u>	<u>Requirement</u>
Interest coverage ratio	8.1 to 1.0	> 2.5 to 1.0
Consolidated total secured net leverage ratio	0.7 to 1.0	< 4.0 to 1.0

The Term Loan B requires quarterly payments of 0.25% of the original \$400.0 million balance, or \$1.0 million per quarter. The Term Loan B may be subject to additional mandatory prepayment from excess cash flow on an annual basis per the provisions of the 2017 Credit Agreement. The Company is required to pay a commitment fee on the unused portion of the Revolver determined by a pricing grid based on the consolidated total net leverage ratio of the Company. For the period ended December 31, 2018, the Company's commitment fee rate was 0.20%.

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

2014 Credit Agreement

The Company used the proceeds from the 2017 Credit Agreement to repay in full and terminate the 2014 Credit Agreement. The 2014 Credit Agreement provided for a maximum aggregate commitment of \$500.0 million, consisting of a senior secured credit facility and term loan A. In conjunction with the repayment of all outstanding borrowings under the 2014 Credit Agreement, the Company expensed approximately \$0.4 million of debt issuance costs relating to the term loan A in the fourth quarter of 2017, which is included in loss on extinguishment of debt in the accompanying consolidated statements of comprehensive income.

2028 Senior Notes

On December 27, 2017, we completed an offering of \$500.0 million in aggregate principal amount of 4.75% Senior Unsecured Notes that mature on January 15, 2028 (the "2028 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The 2028 Senior Notes were issued at par, with interest payable on January 15th and July 15th of each year, commencing on July 15, 2018. The Company used the net proceeds from the 2028 Senior Notes and the 2017 Credit Agreement to repay the remaining outstanding amount of our 2021 Senior Notes (as defined below). In connection with the offering, we capitalized \$7.7 million of debt issuance costs which are being amortized as interest expense over the term of the 2028 Senior Notes.

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

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

2021 Senior Notes

Our \$600.0 million 5.375% Senior Unsecured Notes (the "2021 Senior Notes") were comprised of 5.375% Senior Unsecured Notes that were scheduled to mature on December 15, 2021. The 2021 Senior Notes were issued in an initial offering of \$300.0 million in aggregate principal amount at par, completed on December 16, 2013, and an additional offering of \$300.0 million in

aggregate principal amount at 101%, completed on December 16, 2015. Interest on the 2021 Senior Notes was payable on June 15th and December 15th of each year.

The Company used the proceeds from the 2017 Credit Agreement and the 2028 Senior Notes to repay the 2021 Senior Notes and to pay related fees and expenses. The 2021 Senior Notes were redeemed at a price equal to the principal amount thereof and the applicable "make-whole" premium, \$16.1 million, which is included in loss on extinguishment of debt in the accompanying consolidated statements of comprehensive income. In conjunction with the redemption of the 2021 Senior Notes, the Company wrote off \$6.3 million of deferred financing costs and incurred a benefit of \$2.0 million related to the bond premium, both of which are included in loss on extinguishment of debt in the accompanying consolidated statements of comprehensive income.

Contractual Obligations

Our commitments to make future payments as of December 31, 2018, are estimated as follows:

<i>(in millions)</i>	2019	2020-2021	2022-2023	Thereafter	Total
Dividends	\$ 22.5	\$ —	\$ —	\$ —	\$ 22.5
Term Loan B	4.0	8.0	8.0	376.0	396.0
Interest on Term Loan B ⁽¹⁾	18.1	35.7	35.0	17.1	105.9
2028 Senior Notes	—	—	—	500.0	500.0
Interest on 2028 Senior Notes	23.8	47.5	47.5	106.9	225.7
Operating leases	5.0	8.3	6.1	11.2	30.6
Total	<u>\$ 73.4</u>	<u>\$ 99.5</u>	<u>\$ 96.6</u>	<u>\$ 1,011.2</u>	<u>\$ 1,280.7</u>

(1) Interest includes the estimated contractual payments under our 2017 Credit Facility assuming no change in the weighted average borrowing rate of 4.53%, which was the rate in place as of December 31, 2018.

As of December 31, 2018, we had approximately \$2.8 million of unrecognized tax benefits.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in conformity with GAAP. The preparation of our consolidated financial statements and accompanying notes may require management to make estimates, judgments and assumptions that we believe are reasonable based on our historical experience, contract terms, observance of known trends in our Company and the industry as a whole and information available from other outside sources. Our estimates affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results may differ from those initial estimates.

Our critical accounting policies and estimates involving significant judgments and estimates are:

- goodwill and indefinite-lived intangible assets; and
- property and equipment.

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

Goodwill and indefinite-lived intangible assets

Assets and liabilities, including goodwill and indefinite-lived intangible assets, of acquired businesses are recognized under the acquisition method of accounting at their estimated fair values at the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying identifiable net assets of acquired businesses. Our indefinite-lived intangible assets primarily consist of gaming rights and trademarks. Gaming rights and trademarks are considered indefinite-lived intangible assets that do not require amortization based on our future expectations to operate our gaming facilities and use the trademarks indefinitely, and our historical experience in renewing these intangible assets at minimal cost with various state gaming commissions. The fair values of gaming rights are generally determined using the Greenfield method, which is an income approach methodology that calculates the present value of the overall business enterprise based on a projected cash flow stream. This method assumes that the gaming rights provides the opportunity to develop a casino in a specified region, and that the present value of the projected cash flows are a result of the realization of advantages contained in these rights. Under this methodology, the acquirer is expected to absorb all start-up costs, as well as incur all expenses pertaining to the acquisition and/

or the creation of all tangible and intangible assets. The estimated future revenue and operating expenses and start-up costs of the acquired business are the primary assumptions and estimates used in these valuations. The fair values of trademarks are generally determined using the relief-from-royalty method of the income approach, which estimates the fair value of the intangible asset by discounting the fair value of the hypothetical royalty payments a market participant would be willing to pay to enjoy the benefits of the trademarks.

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

Goodwill and intangible-lived assets can or may be required to be tested using a two-step impairment test. Evaluations of possible impairment utilizing the two-step approach require us to estimate, among other factors, forecasts of future operating results, revenue growth, EBITDA margin, tax rates, capital expenditures, depreciation, working capital, weighted average cost of capital, long-term growth rates, risk premiums, terminal values and fair market values of our reporting units and assets. The goodwill impairment test is subject to uncertainties arising from such events as changes in competitive conditions, the current general economic environment, material changes in growth rate assumptions that could positively or negatively impact anticipated future operating conditions and cash flows, changes in the discount rate and the impact of strategic decisions. If any of these factors were to materially change, such change may require a reevaluation of our goodwill. Changes in estimates or the application of alternative assumptions could produce significantly different results.

Property and equipment

We have a significant investment in long-lived property and equipment. Property and equipment are recorded at cost. Judgments are made in determining the estimated useful lives of assets, the salvage values to be assigned to assets and if or when an asset has been impaired. The accuracy of these estimates affects the amount of depreciation expense recognized in the financial results and whether to record a gain or loss on disposition of an asset.

We review the carrying value of our property and equipment used in our operations whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable from estimated future undiscounted cash flows expected to result from its use and eventual disposition. Adverse industry or economic trends, lower projections of profitability, or a significant adverse change in legal factors or in the business climate, among other items, may be indications of potential impairment issues.

There are three generally accepted approaches available in developing an opinion of value: 1) the cost approach, which is the price a prudent investor would pay to produce or construct a similar new item; 2) the market approach, which is typically used for land valuations by analyzing recent sales transactions of similar sites; and 3) the income approach, which is based on a discounted cash flow model using the estimated future results of the relevant reporting unit discounted using our weighted-average cost of capital and market indicators of terminal year free cash flow multiples. If necessary, we solicit third-party valuation expertise to assist in the valuation of our assets. We apply the most indicative approach to the overall valuation, or in some cases, a weighted analysis of any or all of these methods. The determination of fair value uses accounting judgments and estimates, including market conditions, and the reliability is dependent upon the availability and comparability of the market data uncovered, as well as the decision making criteria used by marketing participants when evaluating a property. Changes in estimates or application of alternative assumptions could produce significantly different results.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

General economic trends

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

Interest rate and credit risk

Our primary exposure to market risk relates to changes in interest rates. At December 31, 2018, we had \$396.0 million outstanding under our 2017 Credit Agreement, which bears interest at LIBOR based variable rates. We are exposed to market risk on variable rate debt due to potential adverse changes in these rates. Assuming the outstanding balance of the debt facility remains constant, a one-percentage point increase in the LIBOR rate would reduce net income and cash flows from operating activities by \$3.1 million. As was announced in July 2017, LIBOR is anticipated to be phased out by the end of 2021. We are unable to predict the use of alternative reference rates and corresponding interest rate risk at this time.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the years ended December 31,

(in millions, except per common share data)

	2018	2017	2016
Net revenue:			
Racing	\$ 274.3	\$ 257.3	\$ 251.1
Online Wagering	290.2	255.6	221.6
Casino	411.2	350.5	332.8
Other Investments	33.3	19.2	16.9
Total net revenue	<u>1,009.0</u>	<u>882.6</u>	<u>822.4</u>
Operating expense:			
Racing	204.9	192.5	187.7
Online Wagering	196.1	170.2	146.7
Casino	284.1	247.3	241.3
Other Investments	32.2	17.8	16.5
Corporate	2.1	2.0	1.8
Selling, general and administrative expense	90.5	83.1	79.4
Impairment of tangible and other intangible assets	—	21.7	—
Gain on Calder land sale	—	—	(23.7)
Transaction expense, net	10.3	2.3	0.2
Total operating expense	<u>820.2</u>	<u>736.9</u>	<u>649.9</u>
Operating income	<u>188.8</u>	<u>145.7</u>	<u>172.5</u>
Other income (expense):			
Interest expense, net	(40.1)	(49.3)	(43.7)
Loss on extinguishment of debt	—	(20.7)	—
Equity in income of unconsolidated investments	29.6	25.5	17.4
Gain on Ocean Downs/Saratoga transaction	54.9	—	—
Miscellaneous, net	0.7	1.3	1.2
Total other income (expense)	<u>45.1</u>	<u>(43.2)</u>	<u>(25.1)</u>
Income from continuing operations before provision for income taxes	233.9	102.5	147.4
Income tax (provision) benefit	(51.3)	19.9	(50.7)
Income from continuing operations, net of tax	182.6	122.4	96.7
Income from discontinued operations, net of tax	170.2	18.1	11.4
Net income	<u>\$ 352.8</u>	<u>\$ 140.5</u>	<u>\$ 108.1</u>
Net income per common share data - basic:			
Continuing operations	\$ 4.42	\$ 2.59	\$ 1.94
Discontinued operations	\$ 4.12	\$ 0.38	\$ 0.23
Net income per common share - basic	<u>\$ 8.54</u>	<u>\$ 2.97</u>	<u>\$ 2.17</u>
Net income per common share data - diluted:			
Continuing operations	\$ 4.39	\$ 2.55	\$ 1.92
Discontinued operations	\$ 4.09	\$ 0.37	\$ 0.22
Net income per common share - diluted	<u>\$ 8.48</u>	<u>\$ 2.92</u>	<u>\$ 2.14</u>
Weighted average shares outstanding:			
Basic	41.3	47.2	49.3
Diluted	41.6	48.0	50.5
Other comprehensive income (loss):			
Foreign currency translation, net of tax	\$ 0.6	\$ (0.1)	\$ 0.2
Change in pension benefits, net of tax	(0.2)	—	(0.8)
Other comprehensive income (loss)	0.4	(0.1)	(0.6)
Comprehensive income	<u>\$ 353.2</u>	<u>\$ 140.4</u>	<u>\$ 107.5</u>

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED BALANCE SHEETS
December 31,

(in millions)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 133.3	\$ 51.7
Restricted cash	40.0	31.2
Accounts receivable, net of allowance for doubtful accounts of \$4.0 in 2018 and \$3.6 in 2017	28.8	49.6
Income taxes receivable	17.0	35.6
Other current assets	22.4	18.9
Current assets of discontinued operations held for sale	—	69.1
Total current assets	241.5	256.1
Property and equipment, net	757.5	608.0
Investment in and advances to unconsolidated affiliates	108.1	171.3
Goodwill	338.0	317.6
Other intangible assets, net	264.0	169.4
Other assets	16.1	13.6
Long-term assets of discontinued operations held for sale	—	823.4
Total assets	\$ 1,725.2	\$ 2,359.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 47.0	\$ 54.1
Purses payable	15.8	12.5
Account wagering deposit liabilities	29.6	24.0
Accrued expense	89.8	75.8
Current deferred revenue	47.9	70.9
Current maturities of long-term debt	4.0	4.0
Dividends payable	22.5	23.7
Current liabilities of discontinued operations held for sale	—	188.2
Total current liabilities	256.6	453.2
Long-term debt (net of current maturities and loan origination fees of \$4.7 in 2018 and \$5.1 in 2017)	387.3	632.9
Notes payable (net of debt issuance costs of \$7.0 in 2018 and \$7.7 in 2017)	493.0	492.3
Non-current deferred revenue	21.1	29.3
Deferred income taxes	78.2	40.6
Other liabilities	15.7	16.0
Non-current liabilities of discontinued operations held for sale	—	54.8
Total liabilities	1,251.9	1,719.1
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 0.3 shares authorized; no shares issued or outstanding	—	—
Common stock, no par value; 150.0 shares authorized; 40.4 shares issued and outstanding in 2018 and 46.2 in 2017	—	7.3
Retained earnings	474.2	634.3
Accumulated other comprehensive loss	(0.9)	(1.3)
Total shareholders' equity	473.3	640.3
Total liabilities and shareholders' equity	\$ 1,725.2	\$ 2,359.4

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the years ended December 31, 2018, 2017 and 2016

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount			
<i>(in millions, except per common share data)</i>					
Balance, December 31, 2015	49.8	\$ 134.0	\$ 483.8	\$ (0.6)	\$ 617.2
Net income			108.1		108.1
Issuance of common stock	0.3	2.6			2.6
Repurchase of common stock	(0.8)	(39.0)			(39.0)
Issuance of restricted stock awards, net of forfeitures	0.2	—			—
Stock-based compensation		18.9			18.9
Cash dividends (\$0.440 per share)			(22.2)		(22.2)
Foreign currency translation adjustment, net of (\$0.1) tax				0.2	0.2
Change in pension benefits, net of (\$0.5) tax				(0.8)	(0.8)
Balance, December 31, 2016	49.5	116.5	569.7	(1.2)	685.0
Net income			140.5		140.5
Issuance of common stock	0.1	2.1			2.1
Repurchase of common stock	(3.6)	(138.4)	(52.5)		(190.9)
Issuance of restricted stock awards, net of forfeitures	0.2	—			—
Stock-based compensation		27.1			27.1
Cash dividends (\$0.507 per share)			(23.4)		(23.4)
Foreign currency translation adjustment, net of (\$0.1) tax				(0.1)	(0.1)
Balance, December 31, 2017	46.2	7.3	634.3	(1.3)	640.3
Net income			352.8		352.8
Issuance of common stock	0.3	1.5			1.5
Repurchase of common stock	(6.2)	(29.9)	(519.6)		(549.5)
Issuance of restricted stock awards, net of forfeitures	0.1	—			—
Stock-based compensation		21.1			21.1
Adoption of ASC 606			29.7		29.7
Cash dividends (\$0.543 per share)			(23.0)		(23.0)
Foreign currency translation, net of (\$0.1) tax				0.6	0.6
Change in pension benefits, net of (\$0.1) tax				(0.2)	(0.2)
Balance, December 31, 2018	40.4	\$ —	\$ 474.2	\$ (0.9)	\$ 473.3

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

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

<i>(in millions)</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:			
Net income	\$ 352.8	\$ 140.5	\$ 108.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	63.6	97.1	108.6
Earnings from equity investments, net	(29.6)	(25.5)	(17.4)
Distributed earnings from equity investments	19.8	18.0	15.6
Stock-based compensation	21.1	27.1	18.9
Deferred income taxes	36.5	(65.0)	35.4
Loss on impairment of assets	—	21.7	—
Loss on extinguishment of debt	—	20.7	—
Gain on Ocean Downs/Saratoga transaction	(54.9)	—	—
Loss (gain) on sale of assets	—	0.1	(23.6)
Gain on sale of Big Fish Games	(219.5)	—	—
Big Fish Games earnout and deferred payments	(4.4)	(2.4)	(21.7)
Game software development amortization	0.4	17.5	17.2
Other	2.8	1.7	2.0
Changes in operating assets and liabilities, net of businesses acquired and dispositions:			
Game software development	(0.3)	(22.1)	(22.1)
Income taxes	13.8	(27.4)	(6.6)
Deferred revenue	(10.3)	17.2	17.9
Other assets and liabilities	6.0	(4.1)	(0.9)
Net cash provided by operating activities	<u>197.8</u>	<u>215.1</u>	<u>231.4</u>
Cash flows from investing activities:			
Capital maintenance expenditures	(29.6)	(33.3)	(30.9)
Capital project expenditures	(119.8)	(83.6)	(23.8)
Acquisition of businesses, net of cash	13.1	(24.2)	—
Investment in joint ventures	—	(24.0)	(8.0)
Proceeds from sale of Big Fish Games	970.7	—	—
Proceeds from sale of assets	—	—	25.6
Receivable from escrow	—	13.6	(13.6)
Other	(10.3)	(2.1)	—
Net cash provided by (used in) investing activities	<u>824.1</u>	<u>(153.6)</u>	<u>(50.7)</u>
Cash flows from financing activities:			
Proceeds from borrowings under long-term debt obligations	135.0	2,050.4	727.1
Repayments of borrowings under long-term debt obligations	(381.0)	(1,835.8)	(588.4)
Payment of dividends	(23.7)	(21.5)	(19.1)
Repurchase of common stock	(547.0)	(190.9)	(39.0)
Common stock issued	1.5	2.1	2.2
Repayment of Ocean Downs debt	(54.7)	—	—
Big Fish Games earnout and deferred payments	(58.2)	(31.8)	(288.3)
Call premium on 2021 Senior Notes	—	(16.1)	—
Debt issuance costs	(0.8)	(14.4)	(1.4)
Other	(4.4)	(1.5)	5.0
Net cash used in financing activities	<u>(933.3)</u>	<u>(59.5)</u>	<u>(201.9)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>88.6</u>	<u>2.0</u>	<u>(21.2)</u>
Effect of exchange rate changes on cash	(0.8)	0.5	—
Cash, cash equivalents and restricted cash, beginning of year	85.5	83.0	104.2
Cash, cash equivalents and restricted cash, end of year	<u>\$ 173.3</u>	<u>\$ 85.5</u>	<u>\$ 83.0</u>

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

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

(in millions)

	2018	2017	2016
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 31.1	\$ 47.5	\$ 40.0
Income taxes	48.6	75.9	32.4
Schedule of non-cash investing and financing activities:			
Dividends payable	\$ 22.7	\$ 23.7	\$ 21.8
Property and equipment additions included in accounts payable and accrued expense	6.6	9.6	4.2
Repurchase of common stock in payment of income taxes on stock-based compensation included in accrued expense	2.5	1.3	6.4
Repurchase of treasury stock included in accrued expense	2.5	—	—
Acquisition of Ocean Downs, net of cash acquired	115.2	—	—

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

1. DESCRIPTION OF BUSINESS

Churchill Downs Incorporated (the "Company", "we", "us", "our") is an industry-leading racing, gaming and online entertainment company anchored by our iconic flagship event - *The Kentucky Derby*. We own and operate the largest legal online horseracing wagering platform in the U.S., through our TwinSpires business. We are a leader in brick-and-mortar casino gaming with approximately 9,500 gaming positions in seven states after our Presque Isle acquisition closed on January 11, 2019. In August 2018, we launched our retail BetAmerica Sportsbook at our two Mississippi casino properties and have announced plans to enter additional U.S. sports betting and iGaming markets. Derby City Gaming, the first historical racing machine ("HRM") facility in Louisville, Kentucky, was opened in September 2018 with 900 HRM machines. We were organized as a Kentucky corporation in 1928, and our principal executive offices are located in Louisville, Kentucky.

Sale of Big Fish Games, Inc.

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

The Big Fish Games segment and related Big Fish Transaction meet the criteria for held for sale and discontinued operation presentation. Accordingly, the consolidated statements of comprehensive income, consolidated balance sheets, and the notes to consolidated financial statements reflect the Big Fish Games segment as discontinued operations for all periods presented. Unless otherwise specified, disclosures in these consolidated financial statements reflect continuing operations only. The consolidated statements of cash flows includes both continuing and discontinued operations. Refer to Note 4, Discontinued Operations, for further information on the discontinued operations relating to the Big Fish Transaction.

Ocean Downs/Saratoga Transaction

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

As part of the Ocean Downs/Saratoga Transaction, Saratoga Harness Racing, Inc. ("SHRI") has agreed to grant the Company and its affiliates exclusive rights to operate online sports betting and iGaming on behalf of SHRI in New York and Colorado for a period of fifteen years from the date of the Liquidation Agreement, should such states permit SHRI to engage in sports betting and iGaming, subject to payment of commercially reasonable royalties to SHRI. Refer to Note 3, Acquisitions, for further information on the Ocean Downs/Saratoga Transaction.

Stock Split

On October 31, 2018, the Company announced a three-for-one split (the "Stock Split") of the Company's common stock for shareholders of record as of January 11, 2019. The additional shares resulting from the Stock Split were distributed on January 25, 2019. Our common stock began trading at the split-adjusted price on January 28, 2019. All share and per-share amounts in the Company's consolidated financial statements and related notes have been retroactively adjusted to reflect the effects of the Stock Split.

Operating Segments

We conduct our business through our operating segments and report our net revenue and operating expense associated with our operating segments in our accompanying consolidated statements of comprehensive income. In the fourth quarter of 2018, we changed our TwinSpires segment name to Online Wagering. Our operating segments are defined as follows:

Racing: primarily commissions earned on wagering at our racetracks, off-track betting facilities ("OTBs"), simulcast fees earned from other wagering sites, and operations including admissions, sponsorships and television rights, food and beverage services and alternative uses of our pari-mutuel facilities.

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

Online Wagering: includes our TwinSpires business ("TwinSpires") and our online sports betting and iGaming business. TwinSpires operates our online horseracing wagering business online on our TwinSpires.com, BetAmerica.com and other Company platforms; high dollar wagering by international customers ("Velocity"); and horseracing statistical data generated by our information business that provides data information and processing services to the equine industry. Our sports betting and iGaming business includes the BetAmerica online sports betting and casino gaming operations.

Casino: slot machines, table games, video lottery terminals ("VLTs"), video poker, retail sports wagering, ancillary food, beverage services, hotel, and other miscellaneous operations. In addition, Casino includes our 50% joint venture in Miami Valley Gaming ("MVG").

Other Investments: sales of and services for pari-mutuel wagering systems for racetracks (United Tote), Derby City Gaming HRM pari-mutuel wagering revenue and ancillary food and beverage services, and other investments.

Corporate: other revenue and general and administrative expense not allocated to our other operating segments.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Use of Estimates

Our financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and are based upon certain critical accounting policies. These policies may require management to make estimates, judgments and assumptions that we believe are reasonable based on our historical experience, contract terms, observance of known trends in our Company and the industry as a whole and information available from other outside sources. Our estimates affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results may differ from those initial estimates. Our most critical estimates relate to goodwill and indefinite-lived intangible assets, and property and equipment.

Goodwill and Indefinite-Lived Intangible Assets

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

Goodwill and indefinite-lived intangible assets can or may be required to be tested using a two-step impairment test. An entity may assess qualitative factors to determine whether it is necessary to complete the two-step impairment test using a more likely than not criteria. If an entity believes it is more likely than not that the fair value of a reporting unit is greater than its carrying value, including goodwill, the two-step process can be bypassed. Qualitative factors include macroeconomic conditions, industry and market conditions, cost factors and overall financial performance, among others. These factors require significant judgments and estimates, and application of alternative assumptions could produce significantly different results. Evaluations of possible impairment utilizing the two-step approach require us to estimate, among other factors, forecasts of future operating results, revenue growth, EBITDA margin, tax rates, capital expenditures, depreciation, working capital, weighted average cost of capital, long-term growth rates, risk premiums, terminal values and fair market values of our reporting units and assets. Changes in estimates or the application of alternative assumptions could produce significantly different results.

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

Property and Equipment

We review the carrying value of our property and equipment to be held and used in our operations whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable from estimated future undiscounted cash flows

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Notes to Consolidated Financial Statements

expected to result from its use and eventual disposition. Adverse industry or economic trends, lower projections of profitability, or a significant adverse change in legal factors or in the business climate, among other items, may be indications of potential impairment issues. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, an impairment is recorded based on the fair value of the asset.

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as follows: 10 to 40 years for grandstands and buildings, 2 to 10 years for equipment, 2 to 10 years for furniture and fixtures and 10 to 20 years for tracks and other improvements.

Revenue Recognition

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

Our live racetracks' revenue and income are influenced by our racing calendar. Similarly, Online Wagering horseracing revenue and income is influenced by racing calendars. Therefore, revenue and operating results for any interim quarter are not generally indicative of the revenue and operating results for the year and may not be comparable with results for the corresponding period of the previous year. We historically have had fewer live racing days during the first quarter of each year, and the majority of our live racing revenue occurs during the second quarter with the running of the Kentucky Oaks and Kentucky Derby.

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

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

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

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

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

The revenue we recognize for admissions to a live racing event day is recognized once the related event is complete. For admissions, PSLs, sponsorships, and television rights contracts that relate to multiple live racing event days, we recognize revenue over time

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

Timing of revenue recognition may differ from the timing of invoicing to customers for our long-term contracts in our Racing segment. We generally invoice customers prior to delivery of services for our admissions, PSLs, sponsorships, and television rights contracts. Accordingly, we recognize a receivable and a contract liability at the time we have an unconditional right to receive payment. When cash is received in advance of delivering services under our contracts, we defer revenue and recognize it in accordance with our policies for that type of contract. In situations where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts do not include a significant financing component. The primary purpose of our invoicing terms is to allow our customers to secure the right to the specific services provided under our contracts, not to receive financing from our customers.

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

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

Income Taxes

We use estimates and judgments for financial reporting to determine our current tax liability and deferred taxes. In accordance with the liability method of accounting for income taxes, we recognize the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in the consolidated financial statements or tax returns.

Adjustments to deferred taxes are determined based upon the changes in differences between the book basis and tax basis of our assets and liabilities and measured using enacted tax rates we estimate will be applicable when these differences are expected to reverse. Changes in current tax laws, enacted tax rates or the estimated level of taxable income or non-deductible expense could change the valuation of deferred tax assets and liabilities and affect the overall effective tax rate and tax provision.

When tax returns are filed, it is highly certain that some positions taken will be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that will be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Cash and Cash Equivalents

We consider investments with original maturities of three months or less that are readily convertible to cash to be cash equivalents. We have, from time to time, cash in the bank in excess of federally insured limits. Under our cash management system, checks

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issued but not yet presented to banks that would result in negative bank balances when presented are classified as a current liability in the accompanying consolidated balance sheets.

Restricted Cash and Account Wagering Deposit Liabilities

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

Allowance for Doubtful Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is maintained at a level considered appropriate based on historical experience and other factors that affect our expectation of future collectability. Uncollectible accounts receivable are written off against the allowance for doubtful accounts receivable when management determines that the probability of payment is remote and collection efforts have ceased.

Internal Use Software

Internal use software costs for Online Wagering software is capitalized in property and equipment, net in the accompanying consolidated balance sheets, in accordance with accounting guidance governing computer software developed or obtained for internal use. Once the software is placed in operation, we amortize the capitalized software over its estimated economic useful life, which is generally three years. We capitalized internal use software of approximately \$9.7 million in 2018, \$7.2 million in 2017, and \$6.7 million in 2016. We incurred amortization expense of approximately \$7.3 million in 2018, \$6.3 million in 2017, and \$6.0 million in 2016, for projects which had been placed in service.

Fair Value of Assets and Liabilities

We adhere to a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities that are carried at fair value are classified and disclosed in one of the following three categories: Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities; Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and Level 3: Unobservable inputs for the asset or liability. We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

Investments in and Advances to Unconsolidated Affiliates

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

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

Debt Issuance Costs and Loan Origination Fees

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

Casino and Pari-mutuel Taxes

We recognize casino and pari-mutuel tax expense based on the statutory requirements of the federal, state, and local jurisdictions in which we conduct business. All of our casino taxes and the majority of our pari-mutuel taxes are gross receipts taxes levied on the gaming entity. We recognize these taxes as Racing, Online Wagering, Casino, and Other Investments operating expenses in our consolidated statements of comprehensive income. In certain jurisdictions governing our pari-mutuel contracts with customers,

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there are specific pari-mutuel taxes that are assessed on winning wagers from our customers, which we collect and remit to the government. These taxes are presented on a net basis.

Purse Expense

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

Self-insurance Accruals

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

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

Advertising and Marketing

We expense the costs of general advertising, marketing and associated promotional expenditures at the time the costs are incurred. We incurred advertising and marketing expense of approximately \$28.7 million in 2018, \$24.8 million in 2017, and \$23.1 million in 2016 in our accompanying consolidated statements of comprehensive income.

Stock-Based Compensation

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

Computation of Net Income per Common Share

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

Common Stock Share Repurchases

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

Recent Accounting Pronouncements - Adopted on January 1, 2018

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASC 606") which provides a five-step analysis of transactions to determine when and how revenue is recognized. We adopted ASC 606 on January 1, 2018 using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been retrospectively adjusted and continues to be reported under the accounting standards in effect for those periods.

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The adoption of ASC 606 had no impact on cash provided by or used in operating, financing, or investing activities on our accompanying consolidated statements of cash flows. Due to the adoption of ASC 606, we made certain modifications to the classification of net revenue and operating expenses in the Online Wagering segment primarily due to the fact that under ASC 606, we are the principal in all import revenue contracts. Under ASC 606, in circumstances where we make advance sales and advance billings to customers, we recognize a receivable and deferred revenue when we have an unconditional right to receive payment. Previously, we recognized a receivable and deferred revenue at the time of the advance sale and billing if it was probable we would collect the receivable and recognize revenue. We expect the adoption of ASC 606 will not materially impact our accompanying consolidated statements of comprehensive income on an ongoing basis in future periods.

The cumulative effects of the changes made to our accompanying consolidated balance sheets as of January 1, 2018 for the adoption of ASC 606 were as follows:

<i>(in millions)</i>	<u>As Reported at December 31, 2017</u>	<u>Adoption of ASC 606</u>	<u>Balance at January 1, 2018</u>
ASSETS			
Accounts receivable, net	\$ 49.6	\$ (21.8)	\$ 27.8
Income taxes receivable	35.6	(4.1)	31.5
Current assets of discontinued operations held for sale	69.1	0.7	69.8
Other assets	13.6	(1.1)	12.5
LIABILITIES			
Accrued expense	75.8	0.8	76.6
Current deferred revenue	70.9	(18.9)	52.0
Current liabilities of discontinued operations held for sale	188.2	(38.8)	149.4
Non-current deferred revenue	29.3	(4.5)	24.8
Deferred income taxes	40.6	(0.1)	40.5
Non-current liabilities of discontinued operations held for sale	54.8	5.5	60.3
SHAREHOLDERS' EQUITY			
Retained earnings	634.3	29.7	664.0

There were two primary changes to our consolidated balance sheets resulting from the adoption of ASC 606. The most significant change was in current and non-current liabilities of discontinued operations held for sale and retained earnings related to breakage revenue for outstanding Big Fish Game Club credits. The other primary change was in accounts receivable, net of allowance for doubtful accounts, current deferred revenue, and non-current deferred revenue related to the timing of when we have a right to consideration under our contracts.

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In accordance with ASC 606 requirements, the disclosure of the impact of adoption on our accompanying consolidated balance sheets was as follows:

	At December 31, 2018		
<i>(in millions)</i>	As Reported	Balances without Adoption of ASC 606	Effect of Change Increase/(Decrease)
ASSETS			
Accounts receivable, net	\$ 28.8	\$ 53.7	\$ (24.9)
Other assets	16.1	16.7	(0.6)
LIABILITIES			
Accrued expense	89.8	88.8	1.0
Current deferred revenue	47.9	70.1	(22.2)
Non-current deferred revenue	21.1	25.2	(4.1)
Deferred income taxes	78.2	78.0	0.2
SHAREHOLDERS' EQUITY			
Retained earnings	474.2	474.6	(0.4)

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash ("ASU 2016-18"). The new standard requires that the statement of cash flows explain the change during the period of cash, cash equivalents, and amounts generally described as restricted cash. Entities are also required to reconcile the cash, cash equivalents, and restricted cash in the statement of cash flows to the balance sheet and disclose the nature of the restrictions on restricted cash. We adopted ASU 2016-18 on January 1, 2018 using the retrospective method. As a result, we began including amounts generally described as restricted cash with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the consolidated statements of cash flows. We adjusted our consolidated statements of cash flows for the years ended December 31, 2017 and 2016 from amounts previously reported due to the adoption of ASU 2016-18. The effects of adopting ASU 2016-18 on our accompanying consolidated statements of cash flows were as follows:

	Year Ended December 31, 2017		
<i>(in millions)</i>	As Previously Reported	Adoption of ASU 2016-18	As Adjusted
Net cash provided by operating activities	\$ 218.2	\$ (3.1)	\$ 215.1
Cash, cash equivalents and restricted cash, beginning of year	\$ 48.7	\$ 34.3	\$ 83.0
Net increase in cash, cash equivalents and restricted cash	5.1	(3.1)	2.0
Effect of exchange rate changes on cash	0.5	—	0.5
Cash, cash equivalents and restricted cash, end of year	\$ 54.3	\$ 31.2	\$ 85.5

	Year Ended December 31, 2016		
<i>(in millions)</i>	As Previously Reported	Adoption of ASU 2016-18	As Adjusted
Net cash provided by operating activities	\$ 226.8	\$ 4.6	\$ 231.4
Cash, cash equivalents and restricted cash, beginning of year	\$ 74.5	\$ 29.7	\$ 104.2
Net decrease in cash, cash equivalents and restricted cash	(25.8)	4.6	(21.2)
Effect of exchange rate changes on cash	—	—	—
Cash, cash equivalents and restricted cash, end of year	\$ 48.7	\$ 34.3	\$ 83.0

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In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which reduces diversity in practice in how certain transactions are classified in the statement of cash flows. We adopted the new guidance on January 1, 2018 and it did not have a material impact on our consolidated results of operations, financial condition, or cash flows. We will utilize the cumulative earnings approach under the ASU to present distributions received from equity method investees, which is consistent with our previous existing policy.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"), which allows an entity to make an election to reclassify amounts from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the "Tax Act"). We early adopted ASU 2018-02 on January 1, 2018 at the beginning of the period of adoption and elected to reclassify the income tax effects of the Tax Act from accumulated other comprehensive income to retained earnings. The adoption of ASU 2018-02 did not have a material impact on our consolidated results of operations, financial condition, or cash flows.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting, which provides clarity about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting for stock compensation expense. The guidance became effective in 2018 and is to be applied prospectively. We adopted the new guidance on January 1, 2018 and it did not have a material impact on our consolidated results of operations, financial condition, or cash flows.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations: Clarifying the Definition of a Business, in an effort to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance became effective in 2018 and is to be applied prospectively. We adopted the new guidance on January 1, 2018 and it did not have a material impact on our consolidated results of operations, financial condition, or cash flows.

Recent Accounting Pronouncements - effective in 2019 or thereafter

In February 2016, the FASB issued ASU No. 2016-02, Leases, and subsequently has issued additional guidance (collectively, "ASC 842") which requires companies to generally recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet. The new guidance is effective on January 1, 2019 with early adoption permitted. ASC 842 may be applied at the beginning of the earliest comparative period in the financial statements or at the effective date by recognizing a cumulative effect adjustment in the period of adoption with comparative periods being reported under the accounting standards in effect for those periods. The modified transition method must be used when adopting ASC 842. We will adopt ASC 842 in 2019 by recognizing a cumulative effect adjustment at January 1, 2019, and report comparative periods under the accounting standards in effect for those periods. We are in the process of finalizing our evaluation of our lease contracts under the new standard. We have determined that we do not have any material capital leases nor any material operating leases where we are the lessor. We currently expect that most of our operating lease commitments greater than one year will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of ASC 842. As an accounting policy, we plan to elect to not apply the lease liability and right-of-use asset recognition requirements to short-term leases. We plan to elect the package of practical expedients that allows us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. We do not expect the adoption of ASC 842 to have a material effect on our results of operations, financial condition, or cash flows.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other: Internal-Use Software, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance also requires an entity to expense the capitalized implementation costs of a hosting arrangement over the term of the hosting arrangement. The guidance is effective in 2020 with early adoption permitted and may be applied prospectively or retrospectively. We are assessing the impact of the new accounting guidance and currently cannot estimate the financial statement impact of adoption.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses, which introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new model will apply to: (1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, (2) loan commitments and certain other off-balance sheet credit exposures, (3) debt securities and other financial assets measured at fair value through other comprehensive income, and (4) beneficial interests in securitized financial assets. The guidance will become effective in 2020, and is to be applied through a modified retrospective approach during the year of adoption. We are assessing the impact of the new accounting guidance and currently cannot estimate the financial statement impact of adoption.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment. This new guidance simplifies the accounting for goodwill impairments by removing step two from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized

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in an amount equal to that excess. The new guidance is effective in 2020 with early adoption permitted for any goodwill impairment test performed between January 1, 2017 and January 1, 2020, and is to be applied prospectively. We are currently evaluating the timing of our adoption and impact of the new accounting guidance on our financial statements and related disclosures.

3. ACQUISITIONS

Ocean Downs

On July 16, 2018, the Company announced its entry into the Liquidation Agreement for the Ocean Downs/Saratoga Transaction. As part of the Ocean Downs/Saratoga Transaction, SHRI has agreed to grant the Company and its affiliates exclusive rights to operate online sports betting and iGaming on behalf of SHRI in New York and Colorado for a period of fifteen years from the date of the Liquidation Agreement, should such states permit SHRI to engage in sports betting and iGaming, subject to payment of commercially reasonable royalties to SHRI.

On August 31, 2018, the Company completed the Ocean Downs/Saratoga Transaction, which resulted in the Company owning 100% of the equity interests of Ocean Downs. We therefore consolidated Ocean Downs as of the acquisition date. Upon the closing of the Ocean Downs/Saratoga Transaction, the Company no longer has an equity interest or management involvement in Saratoga New York or Saratoga Colorado. Prior to the Ocean Downs/Saratoga Transaction, the Company held an effective 62.5% ownership interest in Ocean Downs, and a 25% ownership interest in Saratoga New York and Saratoga Colorado, all of which were accounted for under the equity method. The consideration transferred to SCH to acquire the remaining interest in Ocean Downs was the Company's equity investments in Saratoga New York and Saratoga Colorado, which had an aggregate fair value of \$47.8 million at the acquisition date. Under the acquisition method, the fair values of the consideration transferred and the Company's equity method investment in Ocean Downs, which had a fair value of \$80.5 million at the acquisition date, were allocated to the assets acquired and liabilities assumed in the Ocean Downs/Saratoga Transaction. The Company's carrying values in these equity method investments were significantly less than their fair values, resulting in a pre-tax gain of \$54.9 million, which is included in the accompanying consolidated statements of comprehensive income. The fair value of the Company's equity method investments in Ocean Downs, Saratoga New York, and Saratoga Colorado was determined under the market and income valuation approaches using inputs primarily related to discounted projected cash flows and price multiples of publicly traded comparable companies.

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

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

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

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

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

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

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

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

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

In connection with the Ocean Downs/Saratoga Transaction, the Company recorded a deferred tax liability and income tax expense of \$12.6 million. The deferred tax liability represents the excess of the financial reporting amounts of the net assets of Ocean Downs over their respective basis under U.S., state, and local tax law expected to be applied to taxable income in the periods such differences are expected to be realized.

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

The following unaudited pro forma consolidated financial information for the Company has been prepared assuming the Company's acquisition of the remaining 50% interest in Ocean Downs occurred as of January 1, 2016 and excludes the gain recognized from the Ocean Downs/Saratoga Transaction. The unaudited pro forma financial information is not necessarily indicative of either future results of operations or results of operations that might have been achieved had the acquisition been consummated as of January 1, 2016. The unaudited pro forma net income giving effect to the Ocean Downs/Saratoga Transaction was not materially different than our historical net income.

	Years Ended December 31,		
	2018	2017	2016
<i>(in millions)</i>			
Net revenue	\$ 1,065.4	\$ 947.2	\$ 884.8

Presque Isle and Lady Luck Nemacolin

On February 28, 2018, the Company entered into two separate definitive asset purchase agreements with Eldorado Resorts, Inc. ("ERI") to acquire substantially all of the assets and properties used in connection with the operation of Presque Isle Downs & Casino in Erie, Pennsylvania (the "Presque Isle Transaction"), and Lady Luck Casino in Vicksburg, Mississippi (the "Lady Luck Vicksburg Transaction") for total aggregate consideration of approximately \$229.5 million, to be paid in cash, subject to certain working capital and other purchase price adjustments.

On July 6, 2018, the Company and ERI mutually agreed to terminate the asset purchase agreement with respect to the Lady Luck Vicksburg Transaction (the "Termination Agreement"). Concurrently with the entry into the Termination Agreement, the Company and ERI also entered into an amendment to the previously announced asset purchase agreement relating to the Presque Isle Transaction (the "Amendment"). Pursuant to the Amendment, the Company and ERI agreed to, among other things, cooperate in good faith, subject to certain conditions, to enter into an agreement pursuant to which the Company, for cash consideration of \$100,000, will receive certain assets and assume the rights and obligations of an affiliate of ERI to operate the Lady Luck Casino Nemacolin in Farmington, Pennsylvania (the "Lady Luck Nemacolin Transaction"). The Presque Isle Transaction reflects a stand-alone purchase price of \$178.9 million. Closing of the Presque Isle Transaction was also conditioned on the execution of the definitive agreement with respect to the Lady Luck Nemacolin Transaction, which occurred on August 10, 2018 (the "Lady Luck Nemacolin Agreement").

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Upon the execution of the Lady Luck Nemaocolin Agreement and pursuant to the Termination Agreement, the Company paid ERI a termination fee of \$5.0 million, which is included in "Transaction expense, net" in the accompanying consolidated statements of comprehensive income.

On January 11, 2019, the Company completed the Presque Isle Transaction. The closing date of the Presque Isle Transaction occurred subsequent to the end of the reporting period and the preliminary allocation of the purchase price to the underlying net assets has not yet been completed. Subject to receipt of Pennsylvania regulatory approvals and other customary closing conditions, the Lady Luck Nemaocolin Transaction is expected to close in the first half of 2019.

The following unaudited pro forma consolidated financial information for the Company has been prepared assuming the Company's acquisition of Presque Isle occurred as of January 1, 2016. The unaudited pro forma financial information is not necessarily indicative of either future results of operations or results of operations that might have been achieved had the acquisition been consummated as of January 1, 2016. The unaudited pro forma net income giving effect to the Presque Isle Transaction was not materially different than our historical net income.

<i>(in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Net revenue	\$ 1,150.8	\$ 1,020.5	\$ 964.5

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

On October 31, 2018, the Company announced that it had entered into a definitive purchase agreement pursuant to which the Company will acquire certain ownership interests of Midwest Gaming Holdings, LLC ("Midwest Gaming"), the parent company of Rivers Casino Des Plaines in Des Plaines, Illinois ("Rivers Des Plaines"), for cash (the "Sale Transaction").

The Sale Transaction will be comprised of (i) the Company's purchase of 100% of the ownership stake in Midwest Gaming held by affiliates and co-investors of Clairvest Group Inc. ("Clairvest") for approximately \$291.0 million and (ii) the Company's offer to purchase, on the same terms, additional units of Midwest Gaming held by High Plains Gaming, LLC ("High Plains"), an affiliate of Rush Street Gaming, LLC, and Casino Investors, LLC ("Casino Investors").

Following the closing of the Sale Transaction, the parties expect to enter into a recapitalization transaction pursuant to which Midwest Gaming will use approximately \$300.0 million in proceeds from new credit facilities to redeem, on a pro rata basis, additional Midwest Gaming units held by High Plains and Casino Investors (the "Recapitalization" and together with the Sale Transaction, the "Transactions").

Based on the results of the purchase of the Clairvest ownership stake and the purchase, on the same terms, of additional units held by High Plains and Casino Investors, the Company will acquire, at the closing of the Sale Transaction, approximately 42% of Midwest Gaming for aggregate cash consideration of approximately \$407.0 million. As a result of the Recapitalization, the Company's ownership of Midwest Gaming will increase to approximately 62%.

The Company and High Plains equally will split priority distributions of two percent of Midwest Gaming's annual gross revenue. In addition, the Company, High Plains, and Casino Investors will be entitled to receive pro rata quarterly tax distributions calculated based on the highest applicable U.S. individual federal tax rate plus the higher of California or New York individual state tax rates, as well as other distributions permitted under new credit facility covenants.

The Transactions are dependent on usual and customary closing conditions, including securing approval from the Illinois Gaming Board. The Transactions are expected to close in the first half of 2019.

BetAmerica

On April 24, 2017, we completed the acquisition of certain assets of BAM Software and Services, LLC ("BetAmerica"), which has not had a material impact on our results of operations, financial condition or cash flows. The Company has not included other disclosures regarding BetAmerica because the acquired ADW business is immaterial to our business.

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4. DISCONTINUED OPERATIONS

On January 9, 2018, the Company completed the Big Fish Transaction, which had a purchase price of \$990.0 million. The Company received cash proceeds of \$970.7 million which was net of \$5.2 million of working capital adjustments and \$14.1 million of transaction costs. The Company derecognized the following upon the Big Fish Transaction:

(in millions)

Cash and cash equivalents	\$	0.3
Accounts receivable		34.7
Game software development, net		6.7
Other current assets		17.0
Property and equipment, net		17.8
Game software development, net		13.8
Goodwill		530.7
Other intangible assets, net		238.4
Other assets		24.0
Accounts payable		(8.5)
Accrued expense		(22.6)
Deferred revenue		(44.2)
Deferred income taxes		(52.0)
Other liabilities		(4.9)
Carrying value of Big Fish Games	<u>\$</u>	<u>751.2</u>

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

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

<i>(in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Net revenue	\$ 13.2	\$ 466.0	\$ 486.2
Operating expenses	8.4	369.0	398.9
Selling, general and administrative expense	6.0	27.8	20.9
Research and development	0.9	39.6	39.0
Transaction expense, net	—	4.7	5.8
Total operating expense	<u>15.3</u>	<u>441.1</u>	<u>464.6</u>
Operating (loss) income	(2.1)	24.9	21.6
Other income (expense)			
Gain on sale of Big Fish Games	219.5	—	—
Other expense	0.1	(1.7)	(0.9)
Total other income (loss)	<u>219.6</u>	<u>(1.7)</u>	<u>(0.9)</u>
Income from discontinued operations before provision for income taxes	217.5	23.2	20.7
Income tax provision	(47.3)	(5.1)	(9.3)
Income from discontinued operations, net of tax	<u>\$ 170.2</u>	<u>\$ 18.1</u>	<u>\$ 11.4</u>

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The following table presents the major classes of assets and liabilities presented as held for sale related to the Big Fish Transaction as of December 31, 2017:

<i>(in millions)</i>	ASSETS	<u>December 31, 2017</u>
Current assets:		
Cash and cash equivalents		\$ 2.6
Accounts receivable		42.9
Game software development, net		6.9
Other current assets		16.7
Current assets of discontinued operations held for sale		69.1
Property and equipment, net		16.4
Game software development, net		13.5
Goodwill		530.7
Other intangible assets, net		238.8
Other assets		24.0
Long-term assets of discontinued operations held for sale		823.4
Total assets		\$ 892.5
LIABILITIES		
Current liabilities:		
Accounts payable		\$ 5.5
Accrued expense		35.0
Deferred revenue		85.1
Big Fish Games deferred payment		28.4
Big Fish Games earnout liability		34.2
Current liabilities of discontinued operations held for sale		188.2
Deferred income taxes		47.6
Other liabilities		7.2
Non-current liabilities of discontinued operations held for sale		54.8
Total liabilities		\$ 243.0

Stock-Based Compensation

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

Total stock-based compensation expense related to Big Fish Games, which includes the accelerated vesting of the Stock Awards and stock options associated with the Company's employee stock purchase plan, was \$3.4 million in 2018, \$11.1 million in 2017, and \$5.6 million in 2016.

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Fair Value of Liabilities

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The following tables present our liabilities measured at fair value on a recurring basis related to our discontinued operations and liabilities held for sale:

<i>(in millions)</i>	Level 3
	December 31, 2017
Big Fish Games deferred payments	\$ 28.4
Big Fish Games earnout liability	34.2
Total	\$ 62.6

The following table presents the change in fair value of our instruments classified within Level 3 related to our discontinued operations and liabilities held for sale:

<i>(in millions)</i>	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Big Fish Games Deferred Payments	Big Fish Games Earnout Liability	Total
Balance as of December 31, 2017	\$ 28.4	\$ 34.2	\$ 62.6
Payments	(28.4)	(34.2)	(62.6)
Balance as of December 31, 2018	\$ —	\$ —	\$ —

On March 27, 2017, the Company amended the Agreement and Plan of Merger, dated as of December 16, 2014, pursuant to which the Company acquired Big Fish Games, to extend the deferral of the earnout consideration payable and the Big Fish Games' founder deferred payment on December 15, 2017 to January 3, 2018. The estimated fair value of the Big Fish Games deferred payment and earnout liability as of December 31, 2017 was equal to the cash paid on January 3, 2018. The increase in fair value of the Big Fish Games deferred payment and earnout liability of \$1.1 million in 2017 and \$5.7 million in 2016 is included in discontinued operations in the accompanying consolidated statements of comprehensive income.

5. PROPERTY AND EQUIPMENT

Property and equipment, net is comprised of the following:

<i>(in millions)</i>	As of December 31,	
	2018	2017
Grandstands and buildings	\$ 532.8	\$ 439.8
Equipment	356.3	286.7
Tracks and other improvements	207.3	177.9
Land	140.5	131.7
Furniture and fixtures	73.3	62.5
Construction in progress	7.0	23.5
	1,317.2	1,122.1
Accumulated depreciation	(559.7)	(514.1)
Total	\$ 757.5	\$ 608.0

Depreciation expense was \$57.6 million in 2018, \$49.1 million in 2017 and \$49.1 million in 2016 and is classified in operating expense in the accompanying consolidated statements of comprehensive income.

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

In November 2016, we completed the sale of 61 acres of excess, undeveloped land at Calder Race Course ("Calder Racing") for which we received total proceeds of \$25.6 million. We recognized a gain of \$23.7 million on the sale of the Calder land, which is included in operating expenses in the accompanying consolidated statements of comprehensive income.

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6. GOODWILL

Goodwill is comprised of the following:

<i>(in millions)</i>	Racing	Online Wagering	Casino	Total
Balances as of December 31, 2016	\$ 51.7	\$ 132.1	\$ 117.7	\$ 301.5
Additions	—	16.1	—	16.1
Balances as of December 31, 2017	51.7	148.2	117.7	317.6
Additions	—	—	20.4	20.4
Balances as of December 31, 2018	<u>\$ 51.7</u>	<u>\$ 148.2</u>	<u>\$ 138.1</u>	<u>\$ 338.0</u>

In 2018, we established goodwill of \$20.4 million related to the Ocean Downs/Saratoga Transaction. In 2017, we established goodwill of \$16.1 million related to the BetAmerica acquisition.

We performed our annual goodwill impairment analysis as of April 1, 2018 and no adjustment to the carrying value of goodwill was required. We assessed goodwill for impairment by performing step one fair value calculations on a quantitative basis for each reporting unit. We concluded that the fair values of our reporting units exceeded their carrying value and therefore step two of the assessment was not required.

7. OTHER INTANGIBLE ASSETS

Other intangible assets, net are comprised of the following:

<i>(in millions)</i>	December 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:						
Favorable contracts	\$ 11.0	\$ (7.5)	\$ 3.5	\$ 11.0	\$ (6.8)	\$ 4.2
Other	9.5	(2.3)	7.2	7.1	(1.5)	5.6
Customer relationships	6.4	(2.5)	3.9	16.7	(10.6)	6.1
Gaming licenses	5.2	(1.8)	3.4	5.0	(1.7)	3.3
	<u>\$ 32.1</u>	<u>\$ (14.1)</u>	<u>\$ 18.0</u>	<u>\$ 39.8</u>	<u>\$ (20.6)</u>	<u>\$ 19.2</u>
Indefinite-lived intangible assets:						
Trademarks			29.5			21.2
Gaming rights			216.4			128.9
Other			0.1			0.1
Total			<u>\$ 264.0</u>			<u>\$ 169.4</u>

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

In 2017, we established definite-lived intangible assets of \$4.7 million for customer relationships and \$3.4 million for other intangibles related to the BetAmerica acquisition.

Amortization expense for definite-lived intangible assets was approximately \$6.0 million in 2018, \$6.8 million in 2017, and \$9.4 million in 2016 and is classified in operating expense in the accompanying consolidated statements of comprehensive income. We submitted payments of \$2.3 million in 2018 and 2017 for annual license fees for Calder, which are being amortized to expense over the annual license period.

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

We performed our annual indefinite-lived intangible assets impairment analysis as of April 1, 2018, which included an assessment of qualitative and quantitative factors to determine whether it is more likely than not that the fair values of the indefinite-lived

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intangible assets are less than the carrying amount. We concluded that the fair values of our indefinite-lived intangible assets exceeded their carrying value, and therefore step two of the assessment was not required.

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

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

<u>Years Ended December 31,</u>	<u>Estimated Amortization Expense</u>
2019	\$ 3.3
2020	1.9
2021	1.8
2022	1.8
2023	1.8

Future estimated amortization expense does not include additional payments of \$2.3 million in 2019 and in each year thereafter for the ongoing amortization of future expected annual Florida slots gaming license fees not yet incurred or paid.

8. INCOME TAXES

Components of the provision for income taxes are as follows:

<i>(in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Current provision:			
Federal	\$ 10.1	\$ 29.5	\$ 33.6
State and local	3.8	3.0	3.3
	13.9	32.5	36.9
Deferred provision (benefit):			
Federal	35.0	(53.0)	12.7
State and local	2.5	0.8	1.1
Foreign	(0.1)	(0.2)	—
	37.4	(52.4)	13.8
	\$ 51.3	\$ (19.9)	\$ 50.7

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

<i>(in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Domestic	\$ 234.2	\$ 102.2	\$ 146.4
Foreign	(0.3)	0.3	1.0
	\$ 233.9	\$ 102.5	\$ 147.4

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

<i>(in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Federal statutory tax on earnings before income taxes	\$ 49.1	\$ 35.9	\$ 51.6
State income taxes, net of federal income tax benefit	5.4	2.5	4.0
Non-deductible officer's compensation	2.6	4.7	2.3
Change in enacted tax rates	—	(57.7)	0.1
Windfall deduction from equity compensation	(4.7)	(5.2)	(4.9)
Other	(1.1)	(0.1)	(2.4)
	\$ 51.3	\$ (19.9)	\$ 50.7

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

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

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

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

<i>(in millions)</i>	As of December 31,	
	2018	2017
Deferred tax assets:		
Deferred compensation plans	\$ 5.8	\$ 6.5
Deferred income	5.6	4.7
Allowance for uncollectible receivables	0.9	0.8
Deferred liabilities	2.2	2.1
Net operating losses and credit carryforward	3.7	5.1
Deferred tax assets	18.2	19.2
Valuation allowance	(0.2)	(0.2)
Net deferred tax asset	18.0	19.0
Deferred tax liabilities:		
Intangible assets in excess of tax basis	49.3	29.2
Property and equipment in excess of tax basis	38.7	22.4
Equity investments in excess of tax basis	6.9	6.8
Other	1.3	1.2
Deferred tax liabilities	96.2	59.6
Net deferred tax liability	\$ (78.2)	\$ (40.6)

As of December 31, 2018, we had federal net operating losses of \$4.6 million which were acquired in conjunction with the acquisition of Youbet.com. The utilization of these losses, which expire between 2024 and 2026, is limited on an annual basis pursuant to Internal Revenue Code ("IRC") § 382. We believe that we will be able to fully utilize all of these losses. In addition, we have state net operating losses valued at \$1.2 million. We have recorded a valuation allowance of \$0.2 million against the state net operating losses due to the fact that it is unlikely that we will generate income in certain states which is necessary to utilize the assets.

The Internal Revenue Service has completed audits through 2012. Tax years 2015 and after are open to examination. State and local tax years open for examination vary by jurisdiction.

As of December 31, 2018, we had approximately \$2.8 million of total gross unrecognized tax benefits, excluding interest of \$0.1 million. If the total gross unrecognized tax benefits were recognized, there would be a \$2.7 million effect to the annual effective tax rate. We anticipate a decrease in our unrecognized tax positions of approximately \$0.5 million during the next twelve months primarily due to the expiration of statutes of limitation.

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

<i>(in millions)</i>	2018	2017	2016
Balance as of January 1	\$ 2.9	\$ 2.3	\$ 1.8
Additions for tax positions related to the current year	0.1	0.5	0.5
Additions for tax positions of prior years	0.1	0.3	0.1
Reductions for tax positions of prior years	(0.3)	(0.2)	(0.1)
Balance as of December 31	\$ 2.8	\$ 2.9	\$ 2.3

9. SHAREHOLDERS' EQUITY

Stock Repurchase Program

On February 24, 2016, our Board of Directors authorized the repurchase of up to \$150.0 million of our common stock in a stock repurchase program. The program replaced the prior \$150.0 million program which was in effect at December 31, 2015 and had unused authorization of \$11.9 million. During 2016, we repurchased 635,370 shares of our common stock in conjunction with our

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stock repurchase program at a total cost of \$27.6 million based on settlement date. We had approximately \$122.4 million of repurchase authority remaining under this program at December 31, 2016 based on settlement date.

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

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

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

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

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

For the year ended December 31, 2018, excluding the shares purchased under the Tender Offer, we repurchased 372,282 shares of our common stock under the October 2018 stock repurchase program at a total cost of \$32.0 million. We had approximately \$268.0 million of repurchase authority remaining under this program at December 31, 2018.

Stock Split

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

10. STOCK-BASED COMPENSATION PLANS

On December 31, 2018, we had stock-based employee compensation plans as described below. Our total compensation expense, which includes expense related to restricted stock awards, restricted stock unit awards, performance share unit awards, stock option awards, and stock options associated with our employee stock purchase plan, was \$17.7 million in 2018, \$16.0 million in 2017, and \$13.3 million in 2016. The income tax benefit related to stock-based employee compensation expense was \$2.7 million in 2018, \$5.5 million in 2017, and \$4.9 million in 2016.

2016 Omnibus Stock Incentive Plan

On February 24, 2016, we replaced our previous stock compensation program, the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan (the "2007 Incentive Plan") with a new program, the Churchill Downs Incorporated 2016 Omnibus Stock Incentive Plan ("the 2016 Incentive Plan"). The 2016 Incentive Plan is intended to advance our long-term success by encouraging stock ownership among key employees and the Board of Directors. Awards may be in the form of stock options, stock appreciation rights, restricted stock ("RSA"), restricted stock units ("RSU"), performance share units ("PSU"), performance units, or performance cash. The 2016 Incentive Plan has a minimum vesting period of one year for awards granted.

Restricted Stock, Restricted Stock Units, and Performance Share Units

The 2007 Incentive Plan and the 2016 Incentive Plan (collectively "the 2007 and 2016 Plans") permit the award of RSAs, RSUs, or PSUs to directors and key employees responsible for the management, growth and protection of our business. The fair value

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of RSAs and RSUs that vest solely based on continued service under the 2007 and 2016 Plans is determined by the product of the number of shares granted and the grant date market price of our common stock.

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

In 2016, 2017, and 2018, the Company granted three-year performance and total shareholder return ("TSR") PSU awards (the "PSU Awards") to certain named executive officers ("NEOs"). The two performance criteria for the PSU Awards are: (1) a cumulative Adjusted EBITDA target that was set at the beginning of the plan performance period for the three year period; and (2) a cash flow metric that is the aggregate of the cash flow targets for the three individual years that is set annually at the beginning of each year. The cash flow metric is defined as cash flow from operating activities, excluding the change in restricted cash, plus distributions of capital from equity investments less capital maintenance expenditures. The Compensation Committee of the Board of Directors can make adjustments as it may deem appropriate to these metrics. Measurement against these criteria will be determined against a payout curve which provides up to 200% of performance share units based on the original award.

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

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

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

In October 2018, the Company granted RSU awards (the "2018 RSU Awards") and TSR PSU awards (the "2018 TSR PSU Awards") (collectively, the "7-Year Grant") to certain NEOs. The 2018 RSU Awards contain a seven year service period and vest on a pro rata basis over a four year period beginning on the fourth anniversary of the award. The total number of 2018 TSR PSU Awards earned will vary between 0% to 200% of the award amount depending on the Company's TSR relative to the TSR of companies in the Russell 2000 index over a three-year performance period. At the end of the three year performance period, the 2018 TSR PSU Awards will vest on a pro rata basis over the remaining four year service period beginning on the fourth anniversary of the award.

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

A summary of the 2018 RSAs, RSUs, and PSUs granted to certain NEOs, employees, and directors is presented below (shares/units in thousands):

Grant Year	Award Type	Number of Shares/Units Awarded ⁽¹⁾	Vesting Terms
2018	RSA	56	Vest equally over three service periods ending in 2019, 2020, and 2021
2018	RSU	10	Vest over one service period ending in 2019
2018	RSU	48	Vest equally over three service periods ending in 2018, 2019, and 2020
2018	RSU	79	Vest equally over four service periods ending in 2022, 2023, 2024 and 2025
2018	PSU	49	Three year performance and service period ending in 2020
2018	PSU	207	Vest equally over four service periods ending in 2022, 2023, 2024 and 2025 and a three year TSR period ending in 2021

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

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

	PSUs		RSAs and RSUs		Total	
	Number of Shares/Units	Weighted Average Grant Date Fair Value	Number of Shares/Units	Weighted Average Grant Date Fair Value	Number of Shares/Units	Weighted Average Grant Date Fair Value
<i>(in thousands, except grant date values)</i>						
Balance as of December 31, 2015	51	\$ 51.00	804	\$ 23.99	855	\$ 27.90
Granted	59	\$ 47.01	188	\$ 44.68	247	\$ 45.24
Vested	—	\$ —	(501)	\$ 22.54	(501)	\$ 22.54
Canceled/forfeited	—	\$ —	(11)	\$ 29.64	(11)	\$ 29.64
Balance as of December 31, 2016	110	\$ 48.86	480	\$ 36.90	590	\$ 37.23
Granted	65	\$ 55.75	173	\$ 52.31	238	\$ 53.25
Performance adjustment ⁽¹⁾	45	\$ 51.00	—	\$ —	45	\$ 51.00
Vested	(96)	\$ 51.00	(334)	\$ 36.79	(430)	\$ 39.98
Canceled/forfeited	—	\$ —	(3)	\$ 41.92	(3)	\$ 41.92
Balance as of December 31, 2017	124	\$ 51.59	316	\$ 45.51	440	\$ 47.23
Granted	256	\$ 68.32	193	\$ 84.78	449	\$ 75.39
Performance adjustment ⁽¹⁾	70	\$ 47.01	—	\$ —	70	\$ 47.01
Vested	(129)	\$ 47.01	(217)	\$ 46.35	(346)	\$ 46.60
Canceled/forfeited	—	\$ —	(17)	\$ 54.49	(17)	\$ 54.49
Balance as of December 31, 2018	321	\$ 65.77	275	\$ 72.03	596	\$ 68.66

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

The fair value of shares and units vested was \$32.4 million in 2018, \$29.6 million in 2017, and \$24.3 million in 2016.

A summary of total unrecognized stock-based compensation expense related to RSAs, RSUs, and PSUs (based on current performance estimates), at December 31, 2018 is presented below:

<i>(in millions, except years)</i>	December 31, 2018	Weighted Average Remaining Vesting Period (Years)
	Unrecognized RSA expense	\$ 2.9
Unrecognized RSU expense	8.5	4.26
Unrecognized PSU expense	17.8	4.27
Total	\$ 29.2	3.99

Employee Stock Options

All remaining stock options under the 2007 Incentive Plan were exercised during 2017. No stock options have been awarded under the 2016 Incentive Plan. Compensation expense related to stock options was not material for any year included in our accompanying consolidated statements of comprehensive income.

Employee Stock Purchase Plan

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

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11. TOTAL DEBT

The following table presents our total debt outstanding:

	As of December 31, 2018		
<i>(in millions)</i>	Outstanding Principal	Issuance Costs and Fees	Long-Term Debt, Net
2017 Credit Agreement:			
Term Loan B due 2024	\$ 396.0	\$ 4.7	\$ 391.3
Revolving Credit Facility due 2022	—	—	—
Swing line of credit	—	—	—
Total 2017 Credit Agreement	396.0	4.7	391.3
2028 Senior Notes	500.0	7.0	493.0
Total debt	896.0	11.7	884.3
Current maturities of long-term debt	4.0	—	4.0
Total debt, net of current maturities	\$ 892.0	\$ 11.7	\$ 880.3

	As of December 31, 2017		
<i>(in millions)</i>	Outstanding Principal	Issuance Costs and Fees	Long-Term Debt, Net
2017 Credit Agreement:			
Term Loan B due 2024	\$ 400.0	\$ 5.1	\$ 394.9
Revolving Credit Facility due 2022	239.0	—	239.0
Swing line of credit	3.0	—	3.0
Total 2017 Credit Agreement	642.0	5.1	636.9
2028 Senior Notes	500.0	7.7	492.3
Total debt	1,142.0	12.8	1,129.2
Current maturities of long-term debt	4.0	—	4.0
Total debt, net of current maturities	\$ 1,138.0	\$ 12.8	\$ 1,125.2

2017 Credit Agreement

On December 27, 2017, we entered into a senior secured credit agreement (the "2017 Credit Agreement") with a syndicate of lenders. The 2017 Credit Agreement replaced our 2014 senior secured credit agreement (the "2014 Credit Agreement"). The 2017 Credit Agreement provides for a \$700.0 million senior secured revolving credit facility due 2022 (the "Revolver") and a \$400.0 million senior secured term loan B due 2024 (the "Term Loan B"). Included in the maximum borrowing of \$700.0 million under the Revolver is a letter of credit sub facility not to exceed \$50.0 million and a swing line commitment up to a maximum principal amount of \$50.0 million. We had \$693.1 million of available borrowing capacity, after consideration of \$6.9 million in outstanding letters of credit, under the Revolver as of December 31, 2018. The 2017 Credit Agreement is collateralized by substantially all of the assets of the Company.

The Term Loan B requires quarterly payments of 0.25% of the original \$400.0 million balance, or \$1.0 million per quarter. The Term Loan B may be subject to additional mandatory prepayment from excess cash flow on an annual basis per the provisions of the 2017 Credit Agreement. The Company is required to pay a commitment fee on the unused portion of the Revolver determined by a pricing grid based on the consolidated total net secured leverage ratio of the Company. For the period ended December 31, 2018, the Company's commitment fee rate was 0.20%.

The Revolver bears interest at LIBOR plus a spread as determined by the Company's net leverage ratio, which was LIBOR plus 150 points at December 31, 2018. The Term Loan B bears interest at LIBOR plus 200 basis points.

The 2017 Credit Agreement contains certain customary affirmative and negative covenants, which include limitations on liens, investments, indebtedness, dispositions, mergers and acquisitions, the making of restricted payments, changes in the nature of business, changes in fiscal year, and transactions with affiliates. The 2017 Credit Agreement also contains financial covenants providing for the maintenance of a maximum consolidated secured net leverage ratio (4.0 to 1.0 or 4.5 to 1.0 for the year following any permitted acquisition greater than \$100.0 million) and the maintenance of a minimum consolidated interest coverage ratio of

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2.5 to 1.0. The Company was in compliance with all applicable covenants in the 2017 Credit Agreement at December 31, 2018. The Company utilized borrowings from the Revolver to fund a portion of the purchase price related to the closing of the Presque Isle Transaction on January 11, 2019.

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

2014 Credit Agreement

The Company used the proceeds from the 2017 Credit Agreement to repay in full and terminate the 2014 Credit Agreement. The 2014 Credit Agreement provided for a maximum aggregate commitment of \$500.0 million consisting of a senior secured credit facility and term loan A. In conjunction with the repayment of all outstanding borrowings on the 2014 Credit Agreement, the Company expensed approximately \$0.4 million of debt issuance costs relating to the term loan A in the fourth quarter of 2017, which is included in loss on extinguishment of debt in the accompanying consolidated statements of comprehensive income.

2028 Senior Notes

On December 27, 2017, we completed an offering of \$500.0 million in aggregate principal amount of 4.75% Senior Unsecured Notes that mature on January 15, 2028 (the "2028 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The 2028 Senior Notes were issued at par, with interest payable on January 15th and July 15th of each year, commencing on July 15, 2018. The Company used the net proceeds from the offering to repay a portion of our \$600.0 million 5.375% Senior Unsecured Notes that mature on December 15, 2021 (the "2021 Senior Notes"). In connection with the offering, we capitalized \$7.7 million of debt issuance costs which are being amortized as interest expense over the term of the 2028 Senior Notes.

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

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

2021 Senior Notes

The 2021 Senior Notes were comprised of 5.375% Senior Unsecured Notes that mature on December 15, 2021, which were issued in an initial offering of \$300.0 million in aggregate principal amount at par, completed on December 16, 2013, and an additional offering of \$300.0 million in aggregate principal amount at 101% completed on December 16, 2015. Interest on the 2021 Senior Notes was payable on June 15th and December 15th of each year.

The Company used the proceeds from the 2017 Credit Agreement and 2028 Senior Notes to redeem the 2021 Senior Notes and to pay related fees and expenses. The 2021 Senior Notes were redeemed at a price equal to the principal amount thereof and the applicable "make-whole" premium, \$16.1 million, which is included in loss on extinguishment of debt in the accompanying consolidated statements of comprehensive income. The Company accounted for the redemption of the 2021 Senior Notes as an extinguishment and wrote off \$6.3 million of unamortized debt issuance costs and incurred a benefit of \$2.0 million related to the unamortized bond premium, both of which are included in loss on extinguishment of debt in the accompanying consolidated statements of comprehensive income.

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Future aggregate maturities of total debt are as follows (in millions):

Years Ended December 31,		
2019	\$	4.0
2020		4.0
2021		4.0
2022		4.0
2023		4.0
Thereafter		876.0
Total	\$	896.0

12. REVENUE FROM CONTRACTS WITH CUSTOMERS

As further described in Note 2, Significant Accounting Policies, the Company adopted ASC 606 on January 1, 2018. The following disclosures are related to our adoption of ASC 606.

Performance Obligations

As of December 31, 2018, our Racing segment had remaining performance obligations with an aggregate transaction price of \$187.0 million. The revenue we expect to recognize on these remaining performance obligations is \$50.1 million in 2019, \$36.8 million in 2020, \$28.1 million in 2021, and the remainder thereafter.

As of December 31, 2018, our remaining performance obligations in segments other than Racing were not material.

Contract Assets and Contract Liabilities

As of January 1, 2018 and December 31, 2018, contract assets were not material.

As of January 1, 2018 and December 31, 2018, contract liabilities were \$78.7 million and \$69.9 million, respectively, which are included in current deferred revenue, non-current deferred revenue, and accrued expense in the accompanying consolidated balance sheets. Contract liabilities primarily relate to our Racing segment and the decrease was primarily due to revenue recognized for fulfilled performance obligations. We recognized \$53.7 million of revenue during the year ended December 31, 2018 that was included in the contract liabilities balance at January 1, 2018.

Disaggregation of Revenue

To determine how we disaggregate our revenue from contracts with customers, we consider the information regularly reviewed by our chief operating decision maker for evaluating the financial performance of operating segments, disclosures presented in our earnings releases, and other similar information that is used by the Company and users of our financial statements to evaluate our financial performance. We believe that the disaggregation of our revenue included in Note 20, Segment Information, coupled with the disclosures included in Note 2, Significant Accounting Policies, reflects these considerations and depicts how the nature, timing, and uncertainty of revenue and cash flows are affected by economic factors.

13. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

<i>(in millions)</i>	As of December 31,	
	2018	2017
Trade receivables	\$ 6.0	\$ 5.5
Kentucky Derby-related receivables	1.7	22.3
Simulcast and mobile and online wagering receivables	19.9	20.5
Other receivables	5.2	4.9
	32.8	53.2
Allowance for doubtful accounts	(4.0)	(3.6)
Total	\$ 28.8	\$ 49.6

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We recognized bad debt expense of \$1.7 million in 2018, \$1.2 million in 2017 and \$1.1 million in 2016. As referenced in Note 2, Significant Accounting Policies, the adoption of ASC 606 on January 1, 2018 resulted in a \$21.8 million decrease related to Kentucky Derby-related receivables.

14. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

The Company owns a 50% interest in MVG, which has a harness racetrack and video lottery terminal ("VLT") gaming facility in Lebanon, Ohio, and also has equity investments in two other entities, which are not material.

Delaware North Companies Gaming & Entertainment Inc. ("DNC") owns the remaining 50% interest in MVG. Since both we and DNC have participating rights over MVG, and both must consent to MVG's operating, investing and financing decisions, we account for MVG using the equity method.

The joint venture's long-term debt consists of an \$8.0 million secured note payable. Principal payments are due quarterly over 6 years through November 2019 at a 5.0% interest rate. We received distributions from MVG of \$18.8 million in 2018, \$17.0 million in 2017, and \$15.0 million in 2016.

As further discussed in Note 3, Acquisitions, on August 31, 2018, the Company closed the acquisition of the remaining 50% ownership of Ocean Downs owned by SCH in exchange for liquidating the Company's 25% equity interest in SCH, which is the parent company of Saratoga New York and Saratoga Colorado. Upon the closing of the Ocean Downs/Saratoga Transaction, the Company owns 100% of Ocean Downs and has no equity interest or management involvement in Saratoga New York or Saratoga Colorado. Prior to August 31, 2018, Ocean Downs was accounted for under the equity method.

Summarized below is financial information for our equity investments:

<i>(in millions)</i>	December 31,		
	2018	2017	
Assets			
Current assets	\$ 24.0	\$ 64.5	
Property and equipment, net	95.7	234.6	
Other assets, net	106.7	236.5	
Total assets	\$ 226.4	\$ 535.6	
Liabilities and Members' Equity			
Current liabilities	\$ 21.2	\$ 100.3	
Long-term debt	—	110.1	
Other liabilities	—	0.1	
Members' equity	205.2	325.1	
Total liabilities and members' equity	\$ 226.4	\$ 535.6	
	Years Ended December 31,		
<i>(in millions)</i>	2018	2017	2016
Net revenue	\$ 367.2	\$ 443.7	\$ 347.4
Operating and SG&A expense	271.9	345.3	274.1
Depreciation and amortization	22.2	25.9	18.5
Operating income	73.1	72.5	54.8
Interest and other expense, net	(6.3)	(8.5)	(6.9)
Net income	\$ 66.8	\$ 64.0	\$ 47.9

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Our accompanying consolidated statements of comprehensive income include our 50% share of MVG's net income as follows:

<i>(in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Equity in income of unconsolidated investments	\$ 19.9	\$ 16.7	\$ 14.2

15. OPERATING LEASES

Future minimum operating lease payments on non-cancelable leases, which are primarily related to buildings, are as follows (in millions):

Years Ended December 31,		
2019	\$	5.0
2020		4.5
2021		3.8
2022		3.1
2023		3.0
Thereafter		11.2
Total	\$	30.6

Total annual rent expense for all operating leases was \$16.0 million in 2018, \$18.3 million in 2017, and \$18.9 million in 2016 and primarily related to buildings and equipment.

In 2002, as part of financing improvements to the Churchill Downs Racetrack ("Churchill Downs") facility, we transferred title of the Churchill Downs facility to the City of Louisville, Kentucky and leased back the facility. Subject to the terms of the lease, we can re-acquire the facility at any time for \$1.00.

16. DIRECTOR AND EMPLOYEE BENEFIT PLANS

Directors and Officers Retirement Plan

We provide eligible executives and directors an opportunity to defer to a future date the receipt of base and bonus compensation for services as well as director's fees through the 2005 Deferred Compensation Plan (the "Deferred Plan"). Our matching contribution on base compensation deferral of executives equals the matching contribution of our profit-sharing plan with certain limits.

Our directors may elect to invest the deferred director fee compensation into our common stock within the Deferred Plan. Investments in our common stock are credited as hypothetical shares of common stock based on the market price of the stock at the time the compensation was earned. Upon the end of the director's service, common stock shares are issued to the director.

Other Retirement Plans

We have a profit-sharing plan that covers all employees not otherwise participating in an associated profit-sharing plan, with three months or more of service. We will match contributions made by employees up to 3% of the employee's annual compensation and match at 50% contributions made by the employee up to an additional 2% of compensation with certain limits. We may also contribute a discretionary amount determined annually by the Board of Directors as well as a year-end discretionary match not to exceed 4% of compensation. Our cash contribution to the plan was \$3.0 million in 2018, \$2.7 million in 2017, and \$2.5 million in 2016.

We are a member of a noncontributory defined benefit multi-employer retirement plan for all members of the Pari-mutuel Clerk's Union of Kentucky and several other collectively bargained retirement plans, which are administered by unions. Cash contributions are made in accordance with negotiated labor contracts. Retirement plan expense was \$0.7 million in 2018, and \$0.6 million in both 2017 and 2016. Our policy is to fund this expense as accrued, and we currently estimate that future contributions to these plans will not increase significantly from prior years.

17. FAIR VALUE OF ASSETS AND LIABILITIES

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Refer to Note 4, Discontinued Operations, for disclosures relating to our liabilities held for sale.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate:

Restricted Cash

Our restricted cash accounts that are held in interest-bearing accounts qualify for Level 1 in the fair value hierarchy, which includes unadjusted quoted market prices in active markets for identical assets.

Debt

The fair value of the Company's 2028 Senior Notes is estimated based on unadjusted quoted prices for identical or similar liabilities in markets that are not active and as such is a Level 2 measurement. The fair values of the Company's 2017 Credit Agreement approximates its gross carrying value as it is variable rate debt and as such is a Level 2 measurement.

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

		December 31, 2018				
<i>(in millions)</i>	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
Financial assets:						
Restricted cash	\$ 40.0	\$ 40.0	\$ 40.0	\$ —	\$ —	
Financial liabilities:						
Term Loan B	391.3	396.0	—	396.0	—	
2028 Senior Notes	493.0	452.4	—	452.4	—	

		December 31, 2017				
<i>(in millions)</i>	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
Financial assets:						
Restricted cash	\$ 31.2	\$ 31.2	\$ 31.2	\$ —	\$ —	
Financial liabilities:						
Term Loan B	394.9	400.0	—	400.0	—	
2028 Senior Notes	492.3	496.8	—	496.8	—	
Revolver	239.0	239.0	—	239.0	—	
Swing line of credit	3.0	3.0	—	3.0	—	

18. CONTINGENCIES

We are involved in litigation arising in the ordinary course of conducting business. We carry insurance for workers' compensation claims from our employees and general liability for claims from independent contractors, customers and guests. We are self-insured up to an aggregate stop loss for our general liability and workers' compensation coverages.

We review all litigation on an ongoing basis when making accrual and disclosure decisions. For certain legal proceedings, we cannot reasonably estimate losses or a range of loss, if any, particularly for proceedings that are in the early stages of development or where the plaintiffs seek indeterminate damages. Various factors, including but not limited to, the outcome of potentially lengthy discovery and the resolution of important factual questions, may need to be determined before probability can be established or before a loss or range of loss can be reasonably estimated. In accordance with current accounting standards for loss contingencies and based upon information currently known to us, we establish reserves for litigation when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss or range of loss can be reasonably estimated. When no amount within the range of loss is a better estimate than any other amount, we accrue the minimum amount of the estimable loss. To the extent that such litigation against us may have an exposure to a loss in excess of the amount we have accrued, we believe that such excess would not be material to our consolidated financial condition, results of operations, or cash flows. Legal fees are expensed as incurred.

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If the loss contingency in question is not both probable and reasonably estimable, we do not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. In the event that a legal proceeding results in a substantial judgment against, or settlement by us, there can be no assurance that any resulting liability or financial commitment would not have a material adverse impact on our business.

19. NET INCOME PER COMMON SHARE COMPUTATIONS

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

	Years Ended December 31,		
	2018	2017	2016
<i>(in millions, except per share data)</i>			
Numerator for basic net income per common share:			
Net income from continuing operations	\$ 182.6	\$ 122.4	\$ 96.7
Net income from continuing operations allocated to participating securities	—	(0.1)	(1.0)
Net income from discontinued operations	170.2	18.1	11.4
Numerator for basic net income per common share	<u>\$ 352.8</u>	<u>\$ 140.4</u>	<u>\$ 107.1</u>
Numerator for diluted net income from continuing operations per common share			
	<u>\$ 182.6</u>	<u>\$ 122.4</u>	<u>\$ 96.7</u>
Numerator for diluted net income per common share			
	<u>\$ 352.8</u>	<u>\$ 140.5</u>	<u>\$ 108.1</u>
Denominator for net income per common share:			
Basic	41.3	47.2	49.3
Plus dilutive effect of stock awards	0.3	0.6	0.6
Plus dilutive effect of participating securities	—	0.2	0.6
Diluted	<u>41.6</u>	<u>48.0</u>	<u>50.5</u>
Net income per common share data:			
Basic			
Continuing operations	\$ 4.42	\$ 2.59	\$ 1.94
Discontinued operations	\$ 4.12	\$ 0.38	\$ 0.23
Net income per common share - basic	<u>\$ 8.54</u>	<u>\$ 2.97</u>	<u>\$ 2.17</u>
Diluted			
Continuing operations	\$ 4.39	\$ 2.55	\$ 1.92
Discontinued operations	\$ 4.09	\$ 0.37	\$ 0.22
Net income per common share - diluted	<u>\$ 8.48</u>	<u>\$ 2.92</u>	<u>\$ 2.14</u>

20. SEGMENT INFORMATION

We manage our operations through five operating segments as outlined below. In the fourth quarter of 2018, we changed our TwinSpire segment name to Online Wagering.

- Racing: includes Churchill Downs, Arlington International Race Course ("Arlington"), Fair Grounds Race Course ("Fair Grounds") and Calder Racing;
- Online Wagering: includes our TwinSpire business and our online sports betting and iGaming business. TwinSpire includes TwinSpire.com, Fair Grounds Account Wagering, Velocity, BetAmerica, and Bloodstock Research Information Services. There was no material activity for the year ended December 31, 2018 related to our online sports betting and iGaming business;

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

- Casino, which includes Oxford Casino ("Oxford"), Riverwalk Casino ("Riverwalk"), Harlow's Casino ("Harlow's"), Calder, Fair Grounds Slots, Video Services, LLC ("VSI"), and our 50% equity investment in MVG. The Casino segment also includes the Company's 50% equity investment in Ocean Downs and 25% equity investment in SCH, which includes investments in Saratoga Casino Hotel, Saratoga Casino Black Hawk and Ocean Downs through August 31, 2018. On August 31, 2018, the Company completed the Ocean Downs/Saratoga Transaction, which resulted in the Company's 100% ownership of Ocean Downs, and the Company having no further equity interest or management involvement in Saratoga New York or Saratoga Colorado. The Casino segment includes 100% of Ocean Downs from September 1, 2018 to December 31, 2018. The Casino segment also includes our retail BetAmerica Sportsbook which we launched in August 2018 at our two Mississippi properties;
- Other Investments, which includes United Tote, Derby City Gaming (which opened in September 2018), and other minor investments; and
- Corporate, which includes miscellaneous and other revenue, compensation expense, professional fees and other general and administrative expense not allocated to our other operating segments.

As a result of the Big Fish Transaction, Big Fish Games is no longer reported as an operating segment and is presented as a discontinued operation.

Eliminations include the elimination of intersegment transactions. We utilize non-GAAP measures, including EBITDA (earnings before interest, taxes, depreciation and amortization) and Adjusted EBITDA. Our chief operating decision maker utilizes Adjusted EBITDA to evaluate segment performance, develop strategy and allocate resources. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, adjusted for the following:

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

Adjusted EBITDA excludes:

- Transaction expense, net which includes:
 - Acquisition and disposition related charges, including fair value adjustments related to earnouts and deferred payments;
 - Calder Racing exit costs; and
 - Other transaction expense, including legal, accounting and other deal-related expense;
- Stock-based compensation expense;
- Asset impairments;
- Gain on Ocean Downs/Saratoga Transaction;
- Gain on Calder land sale;
- Loss on extinguishment of debt;
- Pre-opening expense; and
- Other charges, recoveries and expenses

Effective January 1, 2017, certain revenue previously included in our Corporate segment was deemed by management to be more closely aligned with our Online Wagering segment. Due to the Big Fish Transaction, the Company has presented Big Fish Games as held for sale and discontinued operations in the accompanying consolidated financial statements and these notes. The Company has not allocated corporate and other certain expenses to Big Fish Games consistent with the discontinued operations presentation in the accompanying consolidated statements of comprehensive income. Accordingly, the prior year amounts were reclassified to conform to this presentation.

We utilize the Adjusted EBITDA metric because we believe the inclusion or exclusion of certain non-recurring items is necessary to provide a more accurate measure of our core operating results and enables management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. Adjusted EBITDA should not be considered as an alternative to operating income as an indicator of performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure provided in accordance with GAAP. Our calculation of Adjusted EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited. For segment reporting, Adjusted EBITDA includes intercompany revenue and expense totals that are eliminated in the accompanying consolidated statements of comprehensive income.

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

The tables below present net revenue from external customers and intercompany revenue from each of our operating segments, Adjusted EBITDA by segment and reconciles comprehensive income to Adjusted EBITDA:

<i>(in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Net revenue from external customers:			
Racing:			
Churchill Downs	\$ 181.0	\$ 161.3	\$ 155.2
Arlington	55.0	57.2	55.3
Fair Grounds	35.8	36.3	38.0
Calder Racing	2.5	2.5	2.6
Total Racing	274.3	257.3	251.1
Online Wagering	290.2	255.6	221.6
Casino:			
Oxford	102.0	90.8	84.6
Calder	96.1	85.4	79.1
Fair Grounds Slots and VSI	81.9	74.8	73.8
Riverwalk	54.5	48.2	46.1
Harlow's	50.2	50.0	48.4
Ocean Downs	25.9	—	—
Saratoga	0.6	1.3	0.8
Total Casino	411.2	350.5	332.8
Other Investments	33.3	19.2	16.9
Net revenue from external customers	\$ 1,009.0	\$ 882.6	\$ 822.4
Intercompany net revenue:			
Racing:			
Churchill Downs	\$ 12.7	\$ 11.4	\$ 10.0
Arlington	6.7	6.3	5.5
Fair Grounds	1.6	1.6	1.5
Calder Racing	0.1	—	—
Total Racing	21.1	19.3	17.0
Online Wagering	1.3	1.1	1.3
Other Investments	4.5	4.5	3.9
Eliminations	(26.9)	(24.9)	(22.2)
Intercompany net revenue	\$ —	\$ —	\$ —

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

Adjusted EBITDA by segment is comprised of the following:

<i>(in millions)</i>	Year Ended December 31, 2018				
	Racing	Online Wagering	Casino	Other Investments	Corporate
Net revenue	\$ 295.4	\$ 291.5	\$ 411.2	\$ 37.8	\$ —
Taxes & purses	(67.3)	(15.2)	(139.9)	(4.3)	—
Marketing & advertising	(6.5)	(6.0)	(14.7)	(1.0)	—
Salaries & benefits	(44.0)	(9.2)	(58.5)	(15.0)	—
Content expense	(14.4)	(152.0)	(0.3)	—	—
SG&A expense	(17.8)	(12.1)	(26.1)	(5.3)	(11.0)
Other operating expense	(53.6)	(24.2)	(45.5)	(7.0)	(0.4)
Other income	0.6	—	43.3	0.1	0.2
Adjusted EBITDA	<u>\$ 92.4</u>	<u>\$ 72.8</u>	<u>\$ 169.5</u>	<u>\$ 5.3</u>	<u>\$ (11.2)</u>

<i>(in millions)</i>	Year Ended December 31, 2017				
	Racing	Online Wagering	Casino	Other Investments	Corporate^(a)
Net revenue	\$ 276.6	\$ 256.7	\$ 350.5	\$ 23.7	\$ —
Taxes & purses	(65.4)	(14.7)	(117.0)	—	—
Marketing & advertising	(4.9)	(8.2)	(12.1)	—	—
Salaries & benefits	(41.7)	(9.9)	(53.2)	(12.0)	—
Content expense	(15.2)	(125.0)	—	—	—
SG&A expense	(16.8)	(12.4)	(22.6)	(3.3)	(12.2)
Other operating expense	(48.9)	(22.1)	(41.6)	(5.1)	(0.5)
Other income	0.8	—	42.0	0.4	0.3
Adjusted EBITDA	<u>\$ 84.5</u>	<u>\$ 64.4</u>	<u>\$ 146.0</u>	<u>\$ 3.7</u>	<u>\$ (12.4)</u>

<i>(in millions)</i>	Year Ended December 31, 2016				
	Racing	Online Wagering	Casino	Other Investments	Corporate^(a)
Net revenue	\$ 268.1	\$ 222.9	\$ 332.8	\$ 20.8	\$ —
Taxes & purses	(64.2)	(11.6)	(110.9)	—	—
Marketing & advertising	(4.6)	(6.3)	(12.7)	—	—
Salaries & benefits	(40.9)	(9.4)	(50.8)	(10.9)	—
Content expense	(15.6)	(107.6)	—	—	—
SG&A expense	(16.2)	(12.0)	(21.2)	(3.4)	(11.7)
Other operating expense	(47.4)	(19.8)	(39.1)	(4.1)	(0.6)
Other income	0.5	—	27.7	0.3	0.2
Adjusted EBITDA	<u>\$ 79.7</u>	<u>\$ 56.2</u>	<u>\$ 125.8</u>	<u>\$ 2.7</u>	<u>\$ (12.1)</u>

(a) The Corporate segment includes corporate and other certain expenses of \$3.6 million in 2017 and \$3.1 million in 2016 that have not been allocated to Big Fish Games as a result of the Big Fish Transaction and the Big Fish Games segment reported as held for sale and discontinued operations in the accompanying consolidated financial statements and these notes.

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

<i>(in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Reconciliation of Comprehensive Income to Adjusted EBITDA:			
Comprehensive income	\$ 353.2	\$ 140.4	\$ 107.5
Foreign currency translation, net of tax	(0.6)	0.1	(0.2)
Change in pension benefits, net of tax	0.2	—	0.8
Net income	<u>352.8</u>	<u>140.5</u>	<u>108.1</u>
Income from discontinued operations, net of tax	(170.2)	(18.1)	(11.4)
Income from continuing operations, net of tax	<u>182.6</u>	<u>122.4</u>	<u>96.7</u>
Additions:			
Depreciation and amortization	63.6	56.0	58.4
Interest expense	40.1	49.3	43.7
Loss on extinguishment of debt	—	20.7	—
Income tax provision (benefit)	51.3	(19.9)	50.7
EBITDA	<u>\$ 337.6</u>	<u>\$ 228.5</u>	<u>\$ 249.5</u>
Adjustments to EBITDA:			
Selling, general and administrative:			
Stock-based compensation expense	\$ 17.7	\$ 16.0	\$ 13.3
Other, net	(0.6)	0.5	2.5
Pre-opening expense	4.8	0.5	—
Other income, expense:			
Interest, depreciation and amortization expense related to equity investments	13.9	16.7	10.0
Other charges and recoveries, net	—	—	0.5
Gain on Ocean Downs/Saratoga transaction	(54.9)	—	—
Transaction expense, net	10.3	2.3	0.2
Impairment of tangible and other intangible assets	—	21.7	—
Gain on Calder land sale	—	—	(23.7)
Total adjustments to EBITDA	<u>(8.8)</u>	<u>57.7</u>	<u>2.8</u>
Adjusted EBITDA	<u>\$ 328.8</u>	<u>\$ 286.2</u>	<u>\$ 252.3</u>
Adjusted EBITDA by segment:			
Racing	\$ 92.4	\$ 84.5	\$ 79.7
Online Wagering	72.8	64.4	56.2
Casino	169.5	146.0	125.8
Other Investments	5.3	3.7	2.7
Corporate ^(a)	(11.2)	(12.4)	(12.1)
Adjusted EBITDA	<u>\$ 328.8</u>	<u>\$ 286.2</u>	<u>\$ 252.3</u>

(a) The Corporate segment includes corporate and other certain expenses of \$3.6 million in 2017 and \$3.1 million in 2016 that have not been allocated to Big Fish Games as a result of the Big Fish Transaction and the Big Fish Games segment reported as held for sale and discontinued operations in the accompanying consolidated financial statements and these notes.

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

The table below presents information about earnings (losses) from equity investments, net included in our reported segments:

<i>(in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Casino	\$ 29.4	\$ 25.3	\$ 17.4
Other Investments	0.2	0.2	—
	<u>\$ 29.6</u>	<u>\$ 25.5</u>	<u>\$ 17.4</u>

The table below presents total asset information for each of our operating segments, as well as Big Fish Games, which is no longer reported as an operating segment but is presented as a discontinued operation:

<i>(in millions)</i>	As of December 31,	
	2018	2017
Total assets:		
Racing	\$ 498.9	\$ 483.0
Online Wagering	222.8	215.9
Casino	774.1	679.6
Other Investments	78.9	15.2
Corporate	150.5	73.2
Big Fish Games (discontinued operation)	—	892.5
	<u>\$ 1,725.2</u>	<u>\$ 2,359.4</u>

The table below presents total capital expenditures for each of our operating segments, as well as Big Fish Games, which is no longer reported as an operating segment but is presented as a discontinued operation:

<i>(in millions)</i>	Years Ended December 31,		
	2018	2017	2016
Capital expenditures:			
Racing	\$ 59.9	\$ 57.8	\$ 26.1
Online Wagering	9.7	9.0	7.0
Casino	15.9	37.5	13.9
Other Investments	61.7	3.4	1.0
Corporate	2.2	1.3	1.2
Big Fish Games (discontinued operation)	—	7.9	5.5
	<u>\$ 149.4</u>	<u>\$ 116.9</u>	<u>\$ 54.7</u>

21. RELATED PARTY TRANSACTIONS

Directors and employees may from time to time own or have interests in horses racing at our racetracks. All such races are conducted under the regulations of each state's respective regulatory agency, as applicable, and no director receives any extra or special benefit with regard to having his or her horses selected to run in races or in connection with the actual running of races. There is no material financial statement impact attributable to directors who may have interests in horses racing at our racetracks.

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

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

Refer to Note 9, Shareholders' Equity, for additional information related to the repurchases.

22. SUBSEQUENT EVENTS

Stock Split

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

Acquisition

On January 11, 2019, the Company announced that it had completed the previously announced Presque Isle Transaction for cash consideration of \$178.9 million, subject to certain working capital and other purchase price adjustments. The transaction was funded with cash on hand and through the Company's credit facility.

23. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

(in millions, except per common share data)

	Year Ended December 31, 2018			
	First Quarter^(a)	Second Quarter	Third Quarter^(b)	Fourth Quarter
Net revenues	\$ 189.3	\$ 379.4	\$ 221.3	\$ 219.0
Operating income	19.7	136.6	20.5	12.0
Income from continuing operations, net of tax	14.1	103.2	58.0	7.3
Income (loss) from discontinued operations, net of tax	167.9	(0.1)	(1.7)	4.1
Net income (loss) per common share - basic ^(d) :				
Continuing operations	\$ 0.33	\$ 2.54	\$ 1.43	\$ 0.18
Discontinued operations	\$ 3.88	\$ —	\$ (0.04)	\$ 0.10
Net income per common share - basic	<u>\$ 4.21</u>	<u>\$ 2.54</u>	<u>\$ 1.39</u>	<u>\$ 0.28</u>
Net income (loss) per common share - diluted ^(d) :				
Continuing operations	\$ 0.32	\$ 2.52	\$ 1.42	\$ 0.18
Discontinued operations	\$ 3.86	\$ —	\$ (0.04)	\$ 0.10
Net income per common share - diluted	<u>\$ 4.18</u>	<u>\$ 2.52</u>	<u>\$ 1.38</u>	<u>\$ 0.28</u>

Churchill Downs Incorporated
Notes to Consolidated Financial Statements

(in millions, except per common share data)

	Year Ended December 31, 2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter^(c)
Net revenues	\$ 167.5	\$ 339.3	\$ 196.9	\$ 178.9
Operating income (loss)	8.4	123.3	26.8	(12.8)
Income from continuing operations, net of tax	2.2	72.9	12.9	34.4
Income from discontinued operations, net of tax	5.1	5.4	3.8	3.8
Net income per common share - basic ^(d) :				
Continuing operations	\$ 0.04	\$ 1.50	\$ 0.28	\$ 0.75
Discontinued operations	0.11	0.11	0.08	0.08
Net income per common share - basic	<u>\$ 0.15</u>	<u>\$ 1.61</u>	<u>\$ 0.36</u>	<u>\$ 0.83</u>
Net income per common share - diluted ^(d) :				
Continuing operations	\$ 0.04	\$ 1.49	\$ 0.28	\$ 0.74
Discontinued operations	0.10	0.11	0.08	0.08
Net income per common share - diluted	<u>\$ 0.14</u>	<u>\$ 1.60</u>	<u>\$ 0.36</u>	<u>\$ 0.82</u>

- (a) First quarter of 2018 includes a \$219.5 million gain on the Big Fish Games Transaction, which is included as a discontinued operation.
- (b) Third quarter of 2018 includes a \$54.9 million gain on the Ocean Downs/Saratoga Transaction.
- (c) Fourth quarter of 2017 includes a \$21.7 million impairment of tangible and intangible assets and a \$20.7 million loss on extinguishment of debt. Additionally, fourth quarter of 2017 includes a \$57.7 million income tax benefit resulting primarily from the re-measurement of our net deferred tax liabilities as a result of the Tax Act.
- (d) Net income per common share calculations for each quarter are based on the weighted average number of shares outstanding during the respective period. Accordingly, the sum of the quarters may not equal the full-year income (loss) per share.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Churchill Downs Incorporated

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Churchill Downs Incorporated and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue from contracts with customers in 2018.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky

February 27, 2019

We have served as the Company's auditor since 1990.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports that we filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As required by the Securities and Exchange Commission Rule 13a-15(e), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2018. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of Churchill Downs Incorporated, as defined in Rules 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of Churchill Downs Incorporated's internal control over financial reporting based upon the framework in the *Integrated Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon our evaluation under the framework in the *Internal Control-Integrated Framework (2013)* management has concluded that Churchill Downs Incorporated's internal control over financial reporting was effective as of December 31, 2018.

/s/ William C. Carstanjen

William C. Carstanjen
Chief Executive Officer
February 27, 2019

/s/ Marcia A. Dall

Marcia A. Dall
Executive Vice President and
Chief Financial Officer
February 27, 2019

/s/ Chad E. Dobson

Chad E. Dobson
Vice President and
Chief Accounting Officer
February 27, 2019

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to our directors, audit committee and Section 16(a) beneficial ownership reporting compliance is incorporated by reference to the definitive proxy statement on Schedule 14A to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018.

We have adopted a Code of Conduct that applies to all employees and officers, including our Chief Executive Officer, Chief Financial Officer and principal financial officers. This Code of Conduct is available on our corporate website, www.churchilldownsincorporated.com, under the "Corporate Governance" subheading of the "Investors" heading and is also available to shareholders upon request.

Executive Officers of the Registrant

Name	Age as of 2/27/2019	Principal Occupation for the Past Five Years and Position with Churchill Downs Incorporated
William C. Carstanjen	51	Chief Executive Officer since August 2014; President and Chief Operating Officer from March 2011 to August 2014.
William E. Mudd	47	President and Chief Operating Officer since October 2015; President and Chief Financial Officer from August 2014 to October 2015; Executive Vice President and Chief Financial Officer from October 2007 to August 2014.
Marcia A. Dall	55	Executive Vice President and Chief Financial Officer since October 2015; Executive Vice President and Chief Financial Officer of Erie Insurance Group / Erie Indemnity Company, a public corporation (Nasdaq: ERIE), from March 2009 through October 2015.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item with respect to executive compensation is incorporated by reference to the definitive proxy statement on Form 14(a) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018; provided, that the Compensation Committee Report will not be deemed to be "filed" with this Report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this item with respect to security ownership of certain beneficial owners and management and related shareholder matters is with respect to securities authorized for issuance under equity compensation plans incorporated by reference to the definitive proxy statement on Schedule 14A to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item with respect to transactions with related persons and director independence matters is incorporated by reference to the definitive proxy statement on Schedule 14A to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item with respect to principal accounting fees and services is incorporated by reference to the definitive proxy statement on Schedule 14A to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

	<u>Pages</u>
(a) (1) Consolidated Financial Statements	
The following financial statements of Churchill Downs Incorporated for the years ended 2018, 2017 and 2016 are included in Part II, Item 8:	
Consolidated Balance Sheets	58
Consolidated Statements of Comprehensive Income	57
Consolidated Statements of Shareholders' Equity	59
Consolidated Statements of Cash Flows	60
Notes to Consolidated Financial Statements	62
Report of Independent Registered Public Accounting Firm	98
(2) Schedule II—Valuation and Qualifying Accounts	108
All other schedules are omitted because they are not applicable, not significant or not required, or because the required information is included in the consolidated financial statements or notes thereto.	
(3) For the list of required exhibits, see exhibit index.	103
(b) Exhibits	103
See exhibit index.	
(c) All financial statements and schedules except those items listed under Items 15(a)(1) and (2) above are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.	

EXHIBIT INDEX

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
2	(a) Stock Purchase Agreement, dated as of November 29, 2017, by and among Aristocrat Technologies, Inc., Churchill Downs Incorporated and Big Fish Games, Inc.	Exhibit 2.1 to Current Report on Form 8-K (Commission file number 001-33998) filed on November 30, 2017**
3	(a) Amended and Restated Articles of Incorporation of Churchill Downs Incorporated, as amended and restated on January 25, 2019	Exhibit 3.2 to Current Report on Form 8-K (Commission file number 001-33998) filed January 17, 2019
	(b) Amended and Restated Bylaws of Churchill Downs Incorporated, as amended July 3, 2012	Exhibit 3.2 to Current Report on Form 8-K (Commission file number 001-33998) filed July 10, 2012
4	(a) Rights Agreement, dated as of March 19, 2008 by and between Churchill Downs Incorporated and National City Bank	Exhibit 4.1 to Current Report on Form 8-K (Commission file number 000-01469) filed March 17, 2008
	(b) Indenture, dated as of December 27, 2017, by and among Churchill Downs Incorporated, the guarantors party thereto and U.S. Bank National Association	Exhibit 4.1 to Current Report on Form 8-K (Commission file number 001-33998) filed December 27, 2017
	(c) Registration Rights Agreement, dated as of December 27, 2017, by and among Churchill Downs Incorporated, the guarantors party thereto and J.P. Morgan Securities LLC	Exhibit 4.2 to Current Report on Form 8-K (Commission file number 001-33998) filed December 27, 2017
10	(a) Churchill Downs Incorporated Amended and Restated Supplemental Benefit Plan effective December 1, 1998*	Exhibit 10(a) to Annual Report on Form 10-K (Commission file number 000-01469) for the fiscal year ended December 31, 1998 filed March 31, 1999
	(b) Churchill Downs Incorporated Amended and Restated Deferred Compensation Plan for Employees and Directors*	Exhibit 10(a) to Quarterly Report on Form 10-Q (Commission file number 000-01469) for the fiscal quarter ended March 31, 2001 filed May 15, 2001
	(c) Lease Agreement, dated as of January 1, 2002, by and between the City of Louisville, Kentucky and Churchill Downs Incorporated	Exhibit 2.1 to Current Report on Form 8-K (Commission file number 000-01469) filed January 6, 2003
	(d) 2005 Churchill Downs Incorporated Deferred Compensation Plan*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 000-01469) filed June 21, 2005
	(e) 2006 Amendment to 2005 Churchill Downs Incorporated Deferred Compensation Plan*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 000-01469) filed June 8, 2006
	(f) Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan*	Exhibit A to Schedule 14A (Commission file number 000-01469) filed April 30, 2007
	(g) Amendment to Churchill Downs Incorporated 2005 Deferred Compensation Plan Adopted June 28, 2007*	Exhibit 10(b) to Quarterly Report on Form 10-Q (Commission file number 000-01469) for the fiscal quarter ended June 30, 2007 filed August 7, 2007
	(h) Amended and Restated Terms and Conditions of Performance Stock Awards Issued Pursuant to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan, dated as of December 19, 2008*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed December 22, 2008
	(i) First Amendment to the Churchill Downs Incorporated Amended and Restated Incentive Compensation Plan (1997), effective November 14, 2008*	Exhibit 10 (vv) to Annual Report on Form 10-K (Commission file number 001-33998) for the fiscal year ended December 31, 2008 filed March 4, 2009

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
(j)	2005 Churchill Downs Incorporated Deferred Compensation Plan (As Amended as of December 1, 2008)*	Exhibit 10 (ww) to Annual Report on Form 10-K (Commission file number 001-33998) for the fiscal year ended December 31, 2008 filed March 4, 2009
(k)	Churchill Downs Incorporated Executive Severance Policy (Amended Effective as of November 12, 2008)*	Exhibit 10 (xx) to Annual Report on Form 10-K (Commission file number 001-33998) for the fiscal year ended December 31, 2008 filed March 4, 2009
(l)	Form of Churchill Downs Incorporated Restricted Stock Agreement pursuant to the 2007 Omnibus Stock Incentive Plan*	Exhibit 10(LL) to Annual Report on Form 10-K (Commission file number 001-33998) for the fiscal year ended December 31, 2011 filed March 12, 2012
(m)	Churchill Downs Incorporated Executive Annual Incentive Plan, effective January 1, 2013*	Exhibit A to Schedule 14A (Commission file number 001-33998) filed May 3, 2012
(n)	Amendment to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan*	Exhibit B to Schedule 14A (Commission file number 001-33998) filed May 3, 2012
(o)	Form of Restricted Stock Agreement pursuant to the 2007 Omnibus Stock Incentive Plan, dated as of February 9, 2015, by and between Churchill Downs Incorporated and each of William C. Carstanjen and William E. Mudd*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed February 12, 2015
(p)	Form of Churchill Downs Incorporated Restricted Stock Unit Agreement pursuant to the 2007 Omnibus Stock Incentive Plan*	Exhibit 10.1A to Current Report on Form 8-K (Commission file number 001-33998) filed September 28, 2015
(q)	Form of Churchill Downs Incorporated Performance Share Unit Agreement pursuant to the 2007 Omnibus Stock Incentive Plan*	Exhibit 10.1B to Current Report on Form 8-K (Commission file number 001-33998) filed September 28, 2015
(r)	Stock Repurchase Agreement, dated as of June 9, 2017, by and between Churchill Downs Incorporated and CDI Holdings, LLC	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed June 12, 2017
(s)	Amended and Restated Stockholder's Agreement, dated as of June 9, 2017, by and between Churchill Downs Incorporated and CDI Holdings, LLC	Exhibit 10.2 to Current Report on Form 8-K (Commission file number 001-33998) filed June 12, 2017
(t)	Credit Agreement, dated as of December 27, 2017, by and among Churchill Downs Incorporated, the subsidiary guarantors party thereto, the lenders party thereto, JPMorgan Chase Bank, N.A. and PNC Bank, National Association	Exhibit 4.3 to Current Report on Form 8-K (Commission file number 001-33998) filed December 27, 2017
(u)	Form of Churchill Downs Incorporated Non-Employee Director Restricted Share Units Agreement*	Exhibit 10(a) to Quarterly Report on Form 10-Q (Commission file number 001-33998) for the fiscal quarter ended June 30, 2016 filed August 3, 2016
(v)	Churchill Downs Incorporated 2016 Omnibus Stock Incentive Plan*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed April 29, 2016
(w)	First Amended and Restated Churchill Downs Incorporated 2000 Employee Stock Purchase Plan*	Exhibit B to Schedule 14A (Commission file number 001-33998) filed March 29, 2016
(x)	Shareholder Agreement, dated as of November 12, 2014, by and between Churchill Downs Incorporated and Paul J. Thelen	Exhibit 2.2 to Current Report on Form 8-K (Commission file number 001-33998) filed November 13, 2014
(y)	First Amendment to Shareholder Agreement, dated as of October 23, 2015, by and between Churchill Downs Incorporated and Paul J. Thelen	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed November 5, 2015

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
(z)	Separation Agreement and Release, dated as of January 9, 2018, by and among Churchill Downs Incorporated, Big Fish Games, Inc. and Paul Thelen*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed January 9, 2018
(aa)	Form of Performance Share Unit Agreement pursuant to the 2016 Omnibus Stock Incentive Plan by and between Churchill Downs Incorporated and each of William C. Carstanjen and William E. Mudd*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed November 5, 2018
(bb)	Form of Restricted Stock Unit Agreement pursuant to the 2016 Omnibus Stock Incentive Plan by and between Churchill Downs Incorporated and each of William C. Carstanjen and William E. Mudd*	Exhibit 10.2 to Current Report on Form 8-K (Commission file number 001-33998) filed November 5, 2018
(cc)	Executive Change in Control, Severance and Indemnity Agreement, dated as of October 30, 2018, by and between Churchill Downs Incorporated and William C. Carstanjen*	Exhibit 10.3 to Current Report on Form 8-K (Commission file number 001-33998) filed November 5, 2018
(dd)	Executive Change in Control, Severance and Indemnity Agreement, dated as of October 30, 2018, by and between Churchill Downs Incorporated and William E. Mudd*	Exhibit 10.4 to Current Report on Form 8-K (Commission file number 001-33998) filed November 5, 2018
(ee)	Executive Change in Control, Severance and Indemnity Agreement, dated as of October 12, 2015, by and between Churchill Downs Incorporated and Marcia A. Dall***	
21	Subsidiaries of the Registrant***	
23	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm***	
31	(a) Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002***	
	(b) Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002***	
32	Certification of Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Rule 13a-14(b))* ***	
101	INS XBRL Instance Document***	
101	SCH XBRL Taxonomy Extension Schema Document***	
101	CAL XBRL Taxonomy Extension Calculation Linkbase Document***	
101	DEF XBRL Taxonomy Extension Definition Linkbase Document***	
101	LAB XBRL Taxonomy Extension Label Linkbase Document***	
101	PRE XBRL Taxonomy Extension Presentation Linkbase Document***	

* Management contract or compensatory plan or arrangement.

** Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedules to the SEC upon request.

*** Filed herewith.

**** Furnished herewith.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHURCHILL DOWNS INCORPORATED

/s/ William C. Carstanjen

William C. Carstanjen
Chief Executive Officer
(Principal Executive Officer)
February 27, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ William C. Carstanjen

William C. Carstanjen
Chief Executive Officer
February 27, 2019
(Director and Principal Executive Officer)

/s/ William E. Mudd

William E. Mudd
President and
Chief Operating Officer
February 27, 2019

/s/ Marcia A. Dall

Marcia A. Dall
Executive Vice President and
Chief Financial Officer
February 27, 2019
(Principal Financial and
Accounting Officer)

/s/ R. Alex Rankin

R. Alex Rankin
February 27, 2019
(Chairman of the Board)

/s/ Ulysses L. Bridgeman

Ulysses L. Bridgeman
February 27, 2019
(Director)

/s/ Richard L. Duchossois

Richard L. Duchossois
February 27, 2019
(Director)

/s/ Robert L. Fealy

Robert L. Fealy
February 27, 2019
(Director)

/s/ Douglas C. Grissom

Douglas C. Grissom
February 27, 2019
(Director)

/s/ Daniel P. Harrington

Daniel P. Harrington
February 27, 2019
(Director)

/s/ Karole F. Lloyd

Karole F. Lloyd
February 27, 2019
(Director)

CHURCHILL DOWNS INCORPORATED
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

<i>(in millions)</i>	Balance Beginning of Year	Charged to Expense	Deductions	Balance End of Year
Allowance for doubtful accounts:				
2018	\$ 3.6	\$ 3.0	\$ (2.6)	\$ 4.0
2017	3.5	1.8	(1.7)	3.6
2016	3.8	1.5	(1.8)	3.5

<i>(in millions)</i>	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Deferred income tax asset valuation allowance:				
2018	\$ 0.2	\$ —	\$ —	\$ 0.2
2017	0.4	—	(0.2)	0.2
2016	0.9	—	(0.5)	0.4

DIRECTORS AND EXECUTIVE OFFICERS

Directors

Ulysses L. Bridgeman, Jr.
Owner & CEO
Heartland Coca-Cola Bottling
Company, LLC

William C. Carstanjen
Chief Executive Officer
Churchill Downs Incorporated

Richard L. Duchossois
Founder & Director
The Duchossois Group, Inc.

Robert L. Fealy
Managing Director
Limerick Investments, LLC

Douglas C. Grissom
Managing Director
Madison Dearborn Partners

Daniel P. Harrington
President & CEO
HTV Industries, Inc.

Karole F. Lloyd
Former Vice Chair and Southeast
Regional Managing Partner,
Ernst & Young, LLC

R. Alex Rankin
Chairman of the Board,
Churchill Downs Incorporated
Chairman, Sterling G. Thompson Co.
President, Upson Downs Farm, Inc.

Executive Officers

William C. Carstanjen
 Chief Executive Officer

William E. Mudd
 President & Chief Operating Officer

Marcia A. Dall
 Executive Vice President &
 Chief Financial Officer

Austin W. Miller
 Senior Vice President of Gaming Operations

Directors Emeriti

Charles W. Bidwill, Jr.
Catesby W. Clay
Craig J. Duchossois
J. David Grissom
G. Watts Humphrey, Jr.
James F. McDonald
Thomas H. Meeker
Carl F. Pollard
Darrell R. Wells

Corporate Office

Churchill Downs Incorporated
 600 N. Hurstbourne Parkway
 Suite 400
 Louisville, KY 40222

Annual Meeting

The Annual Meeting of Shareholders will convene at 9:00 a.m. local time Tues., 4/23 at the Four Seasons Hotel, 120 E. Delaware Place, Chicago, Illinois 60611.

Other Information

Copies of our 2018 Form 10-K and other filings with the Securities and Exchange Commission may be obtained without charge by contacting our corporate office or through our website:
www.churchilldownsincorporated.com

Stock Information

Churchill Downs Incorporated is traded on the NASDAQ Global Market under the ticker symbol "CHDN."

Transfer Agent and Registrar

American Stock Transfer & Trust Company, LLC
 59 Maiden Lane, Plaza Level
 New York, NY 10038
 Tel: (877) 715-0510

CHURCHILL DOWNS
INCORPORATED

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