

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, 2017  
**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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 22, 2018, 13,508,724 shares of the Registrant's Common Stock were outstanding. As of June 30, 2017 (based upon the closing sale price for such date on the NASDAQ Global Market), the aggregate market value of the shares held by non-affiliates of the Registrant was \$2,268,953,571.

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held on April 24, 2018 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 103 pages, which includes an exhibit index on pages 98-101.

**CHURCHILL DOWNS INCORPORATED**  
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**For the Year Ended December 31, 2017**

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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 are a leader in brick-and-mortar casino gaming with approximately 10,000 gaming positions in eight states, and we are the largest, legal mobile and online platform for betting on horseracing in the United States. 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., a Washington corporation ("Big Fish Games"), to Aristocrat Technologies, Inc., a Nevada corporation (the "Purchaser"), 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 Supplemental Data, the Company has presented Big Fish Games as held for sale and discontinued operations in the accompanying Consolidated Financial Statements and related notes.

#### **B. Business Segments**

During 2017, we managed our operations through five continuing operations segments: Racing, Casino, TwinSpires, Other Investments and Corporate. Due to 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 Supplemental 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"). 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 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 licensing 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. Therefore, racing revenue and operating results for any interim quarter are not generally indicative of the revenue and operating results for the year. 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.

Churchill Downs, Arlington, Fair Grounds, our eleven OTBs in Illinois and twelve OTBs in Louisiana offer year-round simulcast wagering. Gulfstream Park took over operations of Calder's simulcast wagering beginning July 1, 2014. 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"). Revenue is earned through pari-mutuel wagering on signals that we both import and export.

#### ***Churchill Downs***

Churchill Downs is located in Louisville, Kentucky and is an internationally known thoroughbred racing operation best known as the home of the iconic 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 record attendance, increasing wagering and television viewership is attractive to presenting sponsors and contributed to the eighth consecutive year of earnings growth in 2017. We conducted 70 live race days in 2015, 2016 and 2017, and anticipate having 70 live race days in 2018.

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 facility consists of approximately 147 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. The 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.

We have continued to invest in the facility to enhance the experience of our customers. During the second quarter of 2015, we opened our new winner's circle suites and a courtyard. The winner's circle suites include 20 private, open-air suites reserved specifically for Kentucky Oaks and Kentucky Derby horsemen. The courtyard is a spacious lawn area in front of the winner's circle suites.

During the second quarter of 2016, we finalized our \$19.0 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 220 flat-screen televisions, three new themed bars, 60 wagering windows and 40 self-serve betting machines.

We have two projects currently underway at Churchill Downs. We expect to complete in the second quarter of 2018 our \$37.0 million capital project that will deliver more than 1,800 new seats for the 2018 Kentucky Derby through the addition of 36 new luxury starting gate suites and interior dining tables. In October 2017, we unveiled a \$32.0 million project to improve the parking and transportation experience for guests traveling to the Kentucky Derby. The project will feature a significantly enlarged, highly-efficient bus depot and additional transportation infrastructure that will also enhance the overall traffic and parking flow for our guests. Phase 1 is scheduled to be completed prior to the start of the 2018 Spring Meet in April 2018. The second phase will begin after the 144th running of the Kentucky Derby on May 5, 2018 and will be completed prior to the 2018 Breeders' Cup World Championships on November 2-3, 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.

#### *Arlington*

The Arlington racetrack is located in Arlington Heights, Illinois and is a thoroughbred racing operation with eleven OTBs. The Arlington racetrack hosts a significant stakes race, the Arlington Million. We conducted 77 live race days in 2015, 74 in 2016 and 71 in 2017. We anticipate having 71 live race days in 2018.

The 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 can accommodate approximately 2,200 horses and has approximately 550 rooms of temporary housing.

#### *Fair Grounds*

The Fair Grounds racetrack is located in New Orleans, Louisiana and is a racing operation with twelve OTBs in Louisiana. The Fair Grounds racetrack hosts a significant stakes race, the Louisiana Derby. We conducted 83 thoroughbred live race days in 2015, 78 in 2016 and 83 in 2017. We anticipate having 81 thoroughbred live race days in 2018. We conducted 12 quarter horse live race days in 2015, 10 in 2016 and 10 in 2017. We anticipate having 10 quarter horse live race days in 2018.

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*

Calder is located in Miami Gardens, Florida and is adjacent to Hard Rock Stadium, home of the Miami Dolphins. Calder 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's racetrack and certain other racing and training facilities and to provide live horseracing under Calder's racing permits. During the term of the agreement, TSG pays Calder a racing services fee and is responsible for the direct and indirect costs of maintaining the racing premises, including the training facilities and applicable barns, and TSG receives the associated revenue from the operation.

Based on our assessment of potential alternative uses of the Calder property, we razed the barns that were not associated with the TSG agreement and commenced the demolition of the grandstand and certain ancillary facilities. The Company recognized Calder exit costs of \$0.8 million in 2017, \$2.5 million in 2016, and \$13.9 million in 2015 related to demolition costs for the removal of the grandstand. The Calder exit costs recognized in 2015 included a non-cash impairment charge of \$12.7 million to reduce the net book value of the grandstand assets to zero.

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

### ***Casino Segment***

We are also a provider of brick-and-mortar real-money casino gaming with approximately 10,000 gaming positions located in eight states. We own five casinos (Oxford Casino, Riverwalk Casino, Harlow's Casino, Calder Casino and Fair Grounds Slots and Video Services, LLC) and three hotels (Oxford, Riverwalk and Harlow's). In addition, we have a 50% equity investment in Miami Valley Gaming, LLC ("MVG"), a 25% equity investment in Saratoga Casino Holdings LLC ("SCH"), a 25% equity investment in Saratoga Casino Black Hawk, and an effective 62.5% equity investment in The Casino at Ocean Downs, which we purchased in January 2017. Our casino revenue is primarily generated from slot machines, video poker and table games while ancillary revenue includes hotel and food and beverage sales.

#### *Oxford*

Our Oxford Casino ("Oxford") is located in Oxford, Maine. Oxford is a 27,000 square-foot casino with approximately 970 slot machines, 28 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.

#### *Riverwalk*

Our Riverwalk Casino ("Riverwalk") is located in Vicksburg, Mississippi. Riverwalk is a 25,000 square-foot casino with approximately 650 slot machines, 15 table games, 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 105-room attached hotel, a 5,600 square-foot multi-functional event center and four dining facilities. Harlow's is located on approximately 84 acres of leased land adjacent to U.S. Highway 82 in Greenville, Mississippi.

#### *Calder*

Our Calder Casino ("Calder Casino") is located in Miami Gardens, Florida near Hard Rock Stadium and is adjacent to Calder Race Course. Calder Casino is a 106,000 square-foot facility with approximately 1,090 slot machines and two dining facilities on a single-level.

#### *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 820 video poker machines in ten OTBs in Louisiana.

#### *Miami Valley Gaming Equity Investment*

We have a 50% equity investment in MVG which owns a video lottery terminal ("VLT") facility and harness racetrack on 120 acres in Lebanon, Ohio, which opened on December 12, 2013. MVG is a 186,000 square-foot facility with approximately 1,830 VLTs, a racing simulcast center, a 5/8-mile harness racetrack and four dining facilities. MVG conducted 89 days of live harness racing in 2015, 86 days of live harness racing in 2016 and 87 days of live harness racing in 2017. MVG expects to conduct 87 days of live harness racing in 2018.

### *Saratoga Casino Holdings LLC Equity Investment*

On October 2, 2015, we completed the acquisition of a 25% equity investment in SCH, which owns Saratoga Casino and Raceway ("Saratoga's New York facility") in Saratoga Springs, New York, for \$24.5 million from Saratoga Harness Racing, Inc. ("SHRI"). Saratoga's New York facility has a casino with approximately 1,700 VLT machines, a 1/2-mile harness racetrack with a racing simulcast center, a 117-room hotel, a 3,000 square-foot multi-functional event space and five dining facilities. Saratoga's New York facility has a 50% interest in a joint venture with Delaware North Companies Gaming & Entertainment Inc. to manage the Gideon Putnam Hotel and Resort. We also signed a five-year management agreement with SCH to manage Saratoga's New York facility for which we receive management fee revenue.

Saratoga's New York facility conducted 170 live harness race days in 2015, 169 days in 2016 and 170 days in 2017. Saratoga's New York facility expects to conduct 170 days of live harness racing in 2018.

On November 21, 2016, we completed the acquisition of a 25% equity investment in Saratoga Casino Black Hawk in Black Hawk, Colorado ("Saratoga's Colorado facility") from SHRI. Saratoga's Colorado facility has a casino with approximately 460 slot machines, nine table games, three lounges and two dining facilities.

Our equity gain or loss from Saratoga's New York facility and Saratoga's Colorado facility are reported as Saratoga (collectively, "Saratoga").

### *Ocean Downs Equity Investment*

On January 3, 2017, we acquired a 50% equity interest in Ocean Enterprise 589 LLC, Ocean Downs LLC and Racing Services LLC (collectively, "Ocean Downs"). SCH owns the remaining 50% of Ocean Downs, and with the Company's 25% interest in SCH, we own an effective 62.5% interest in Ocean Downs. Since both the Company and SCH have participating rights and both must consent to Ocean Downs' operating, investing and financing decisions, the Company accounts for Ocean Downs using the equity method of accounting.

Ocean Downs, located near Ocean City, Maryland, owns and operates VLTs and table games at the Casino at Ocean Downs and conducts harness racing at Ocean Downs Racetrack. The Casino at Ocean Downs added 100 VLTs and table games in December 2017. Including this expansion, the Casino at Ocean Downs now has approximately 600 VLTs, 10 table games and two dining facilities. The racetrack at Ocean Downs conducted 48 live harness race days in 2015, 47 days in 2016 and 47 days in 2017. The racetrack at Ocean Downs expects to conduct 48 days of live harness racing in 2018.

### *TwinSpires Segment*

Our TwinSpires segment 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 also is included in our TwinSpires segment.

TwinSpires.com is headquartered in Louisville, Kentucky and operates our mobile and online wagering business, which is our platform for betting on horseracing. We are the largest legal mobile and online wagering platform in the U.S. TwinSpires accepts pari-mutuel wagers from customers residing in certain states who establish and fund an account from which they may place wagers via telephone, mobile device (through a browser or the TwinSpires.com mobile app) or through the Internet at [www.twinspires.com](http://www.twinspires.com). 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. In addition, we provide technology services to third parties, and we earn commissions from white label advance deposit wagering products and services. Under these arrangements, we typically provide an advance deposit wagering platform and related operational services while the third party typically provides a brand name, marketing and limited customer functions. We believe that TwinSpires.com is a key component to our growth, and our gaming platform positions us to be a continued market leader in online gaming.

Our FAW business is a mobile and online wagering business licensed in the state of Louisiana that is operated by Fair Grounds Race Course for Louisiana residents through a contractual agreement with TwinSpires.com.

Velocity is a mobile and online wagering business licensed under TwinSpires.com, which focuses on high dollar wagering international customers. During December 2016, we completed the transition of Velocity customers to the TwinSpires.com Oregon license.

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](http://Brisnet.com) and [TwinSpires.com](http://TwinSpires.com).

Bluff, which operated a multimedia poker periodical and maintained a comprehensive online poker database, was previously included in the TwinSpires segment but has ceased all operations.

## ***Other Investments Segment***

Our Other Investments Segment includes United Tote and our other minor investments.

### ***United Tote***

Our subsidiaries, United Tote Company and United Tote Canada (collectively "United Tote"), manufacture and operate 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.

### ***Other***

In June 2017, we announced Churchill Downs is investing \$60.0 million to construct an 85,000 square-foot, state-of-the-art historical racing machine facility in Louisville, Kentucky called Derby City Gaming, which we expect to open in the second half of 2018. Derby City Gaming will operate under our Churchill Downs pari-mutuel racing license.

In September 2017, we announced a partnership with Keeneland Association, Inc. to propose the construction of two new racing facilities to be located in Corbin, Kentucky and Oak Grove, Kentucky. The proposed facilities will feature live horse racing and historical racing machines. In partnership with Keeneland, we are working closely with the Tourism, Arts and Heritage Cabinet of the Kentucky Department of Tourism and other state and local officials on incentives and necessary infrastructure improvements to bring Corbin and Oak Grove facilities to fruition. The construction of each proposed facility is contingent on receipt of an initial pari-mutuel racing license by the Kentucky Horse Racing Commission. The Company and Keeneland each filed applications with the Kentucky Horse Racing Commission on September 15, 2017.

## ***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***

Big Fish Games is a global producer and distributor of social casino, casual and mid-core free-to-play and premium paid games for PC, Mac and mobile devices. Big Fish Games is headquartered in Seattle, Washington and has a studio location in Oakland, California, with approximately 700 employees. 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. Internet-based interactive gaming and wagering, both legal and illegal, is growing rapidly and we anticipate competition in this area will become more intense as new Internet-based ventures enter the industry and as state and federal regulations on Internet-based activities are clarified. 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.

### ***Racing***

In 2017, approximately 37,000 thoroughbred horse races were conducted in the United States. Of these races, we hosted approximately 2,200 races, or 5.9% 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. Over 89 percent of pari-mutuel handle is bet at off-track locations, either at other racetracks, OTBs, casinos, or through mobile and online wagering channels. As

a content distributor, we compete for these dollars to be wagered at our racetracks, OTBs, casinos and via our mobile and online wagering business.

#### *Churchill Downs*

Churchill Downs faces competition from freestanding casinos and racetracks that are combined with casinos ("racinos") in Indiana, West Virginia and Ohio. In Indiana, these casinos include Horseshoe Indiana, in Elizabeth, Indiana; Belterra Casino in Florence, Indiana and French Lick Resort in French Lick, Indiana. In Indiana, there are two racinos: Hoosier Park which operates 2,000 slot machines, and Indiana Grand Racing & Casino, which operates 2,200 slot machines. In West Virginia, there are two racinos: Hollywood Casino at Charles Town Races and Mountaineer Casino Racetrack and Resort. In Ohio, seven racetracks offer VLT facilities.

In New York, Aqueduct Racetrack has a gaming facility with more than 6,000 VLTs and electronic table games. As a result of the addition of gaming activities, New York purse payments at each of the three largest New York racetracks, Aqueduct Racetrack, Belmont Park and Saratoga Racetrack, were greatly enhanced compared to historical levels.

These developments may result in Indiana, Ohio and New York racetracks attracting horses that would otherwise race at Kentucky racetracks, including Churchill Downs, thus negatively affecting the number of starters that, in turn, may have a negative effect on handle.

#### *Arlington*

Arlington competes in the Chicago market against a variety of entertainment options. In addition to other racetracks in the area such as Hawthorne Race Course, there are ten riverboat casino operations that attract the Chicago market, including Rivers Casino, in Des Plaines, Illinois. Additionally, Native American gaming operations in Wisconsin may also adversely affect Arlington.

The Video Gaming Act was enacted in July 2009, authorizing the placement of up to five video gaming terminals ("VGTs") in licensed retail establishments, truck stops, and veteran and fraternal establishments. There are currently over 28,000 VGTs distributed among more than 6,000 establishments throughout Illinois.

#### *Fair Grounds*

Fair Grounds competes in Louisiana in both thoroughbred and quarter horse racing with Louisiana Downs, Evangeline Downs, Harrah's Louisiana Downs and Delta Downs as well as with other southern state racetracks, including Gulfstream Park in Florida and Oaklawn Park in Arkansas.

#### *Casinos*

##### *Oxford*

Oxford competes with Hollywood Casino in Bangor, Maine. Oxford also competes with Plainridge Park Casino in Plainville, Massachusetts, which opened in June 2015. MGM Springfield in Springfield, Massachusetts is scheduled to open in September 2018 and Wynn Boston Harbor also in Boston, Massachusetts is expected to open in 2019.

##### *Riverwalk*

Riverwalk competes in the Vicksburg, Mississippi area and is one of five casinos in the local market. Our principal local competitors are Ameristar Casino, Lady Luck Casino, DiamondJacks and WaterView Casino & Hotel. In addition, Riverwalk faces regional competition from Magnolia Bluff Casino and the Pearl River Resort in Mississippi.

##### *Harlow's*

Harlow's competes in Greenville, Mississippi with a variety of regional riverboat and land-based casinos. Our primary local competitor is Trop Casino, which reopened its renovated property during October 2014. Harlow's also faces regional competition from a casino in Lula, Mississippi, eight casinos in Tunica, Mississippi and two casinos in Arkansas.

The Mississippi Gaming Control Act does not limit the number of licenses that may be granted.

##### *Calder Casino*

Calder Casino competes with seven pari-mutuel casinos as well as four Native American-owned casinos, all of which are located in Miami-Dade or Broward County, Florida. We also face competition from a large number of cruise ship operators in Miami and Ft. Lauderdale. Native American casinos offer a variety of table games and are taxed at lower rates and, therefore, are generally able to spend more money marketing their facilities to consumers.

##### *Fair Grounds Slots and Video Services, LLC*

Fair Grounds Slots competes in the New Orleans, Louisiana area with two riverboat casinos and Harrah's, which is the largest, closest and only land-based casino competitor to Fair Grounds Slots. Fair Grounds Slots faces significant gambling competition

along the Mississippi Gulf Coast. Fair Grounds Slots and VSI also compete with video poker operations located at various OTBs, truck stops and restaurants in the area. In 2015, Fair Grounds Slots was adversely impacted by a smoking ban in Orleans Parish which increased competition from properties outside of Orleans Parish.

#### *MVG*

MVG competes with Hollywood Gaming at Dayton Raceway, a VLT facility in Dayton, Ohio and JACK Cincinnati, a slot machine and table games casino in Cincinnati, Ohio. MVG also faces regional competition from three casinos in Indiana and two other gaming properties in Columbus, Ohio.

#### *Saratoga*

Saratoga's New York facility competes with Rivers Casino, a new casino in Schenectady, New York, which opened in February 2017. Saratoga's Colorado facility competes in Black Hawk, Colorado with a variety of casinos including Ameristar Casino, Isle of Capri Hotel & Casino and The Lodge & Hotel at Black Hawk, all of which offer hotel accommodations, slot machines and poker and other table games.

#### *Ocean Downs*

Ocean Downs competes with Harrington Raceway & Casino, in Harrington, Delaware, which has slot machines, table games, simulcasting and live racing. Ocean Downs also faces competition from Dover Downs Hotel and Casino, in Dover, Delaware, which offers slot machines, table games, hotel accommodations and a spa facility.

#### *TwinSpires*

TwinSpires.com competes with other mobile and online wagering businesses for both customers and racing content, and it also competes with online gaming sites. Our competitors include Betfair Limited (d/b/a TVG), The Stronach Group (d/b/a XpressBet), Premier Turf Club, AmWest Entertainment, The New York Racing Association (d/b/a NYRA Rewards), Connecticut OTB, Penn National Gaming Inc. and Racing2Day LLC.

Our BRIS business competes with companies such as Equibase and the Daily Racing Form.

#### ***Other Investments***

In North America, United Tote competes primarily with Sportech and AmTote International, Inc. Our competition outside of North America is very fragmented.

#### **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 operations, our casino operations, TwinSpires and Big Fish Games 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 segments are also subject to legislative actions at both the federal and state level.

#### **Federal Regulations**

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act significantly revises 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. We believe the Tax Act will have a positive impact on our business.

In September 2017, the U.S. Treasury Department and the Internal Revenue Service ("IRS") announced modernized regulations regarding withholding and reporting of pari-mutuel proceeds. Specifically, under the new regulations, when determining an amount to be reported or withheld for taxes, the IRS will consider a bettor's entire investment in a single pari-mutuel pool instead of only the amount wagered on a winning result. We have implemented the regulations and believe the new regulations will have a positive impact on our business.

#### **Racing Regulations**

Horseracing is a highly regulated industry. In the U.S., 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 thoroughbred 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.

### ***Kentucky***

Horseracing tracks in Kentucky are subject to the licensing and regulation of the Kentucky Horse Racing Commission ("KHRC"). The KHRC is responsible for overseeing horseracing and regulating the state equine industry. Licenses to conduct live thoroughbred 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. To some extent, Churchill Downs competes with other racetracks in Kentucky for the award of racing dates; however, the KHRC is required by state law to consider and seek to preserve each racetrack's usual and customary live racing dates.

### ***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 2017, the IRB appointed Arlington the dark host track in Illinois for 60 simulcast host days during 2018, a decrease of 1 day compared to 2017. In addition, Arlington was awarded 155 live host days for 2018, an increase of 1 day as compared to 2017. In total, Arlington was awarded 215 live and dark host days in 2018, which is the same as compared to 2017.

On May 26, 2016, the Illinois legislature passed a bill to reauthorize advance deposit wagering through December 31, 2018 and continued incremental surcharges on winning wagers.

### ***Florida***

In Florida, licenses to conduct live thoroughbred racing and to participate in simulcast wagering are approved by the Department of Business and Professional Regulation'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 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 horseracing, 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 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 2015, 10 days in 2016 and 10 days in 2017. We expect to conduct quarter horseracing for 10 days in 2018.

In March 2016, during a special session held to address Louisiana's budget deficit, legislation was passed which temporarily removed the sales tax exemption Fair Grounds qualified for as a pari-mutuel. From April 1, 2016 through June 30, 2016, Fair Grounds paid the statutory state tax of 4% on all purchases related to racing operations. Effective July 1, 2016 through June 30, 2018, Fair Grounds is required to pay a 2% state tax on purchases related to racing operations. During the same special session, the Louisiana Legislature also added another one percent to the state tax base until July 1, 2018. The sales tax exemption is scheduled to be reinstated July 1, 2018. The legislation is expected to have an adverse 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 Florida Department of Business and Professional Regulation (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 video 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.

#### ***Potential Seminole Compact and Potential Decoupling in Florida***

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.

In November 2017, legislation was filed that would allow pari-mutuel facilities in Miami-Dade and Broward counties to decouple their pari-mutuel and gaming operations. If a pari-mutuel facility elects to decouple, the pari-mutuel facility must pay an amount equal to the lesser of \$2.0 million or three percent of its slot machine revenues. A pari-mutuel facility may offset these payments, if prior to the effective date of the legislation, the pari-mutuel facility is making purse and award supplement payments in accordance with existing statutory requirements. The bill provides for a five percent tax reduction on slot machine revenues in 2019 and another five percent reduction in 2020, but if in any year going forward the aggregate amount of tax paid to the state by slot machine licensees is less than the amount paid in fiscal year 2017-2018, the licensee that paid less in that year than it did in 2017-2018 must pay a surcharge equal to the amount of taxes paid by the licensee in 2017-2018. The legislation also makes it clear that designated player games are not a banked game and establishes rules around the operation of such games. The issue is still pending before the legislature.

At this time it is not possible to determine what impact legislation with respect to authorizing the Seminole Compact or decoupling would have on our business.

## ***Louisiana***

The manufacture, 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 manufacture, 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 video 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.

On January 22, 2015, the New Orleans City Council approved a smoking ban in bars and other public places, including casinos, in Orleans Parish which took effect on April 22, 2015. The smoking ban had a negative impact on Fair Grounds Slots which was partially offset by VSI, whose OTB locations are located outside of Orleans Parish.

## ***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.

In November 2017, a citizen's initiative was defeated, which would have permitted the construction of a casino in York County.

## ***Maryland***

In April 2017, Maryland's Governor signed a law allowing casinos in Allegany and Worcester counties to qualify for a 10% gaming tax reduction on slot machine revenue effective July 1, 2017. In order to qualify for the gaming tax reduction, casinos must purchase or acquire the right to lease all of their VLTs prior to January 1, 2019. As of August 1, 2017, we purchased or acquired the right to lease all of our VLTs and have realized an effective 10% gaming tax reduction from August 1, 2017 forward under this new law.

Under pre-April 2017 Maryland law, Ocean Downs would be required to spend \$1.5 million on racing-related capital maintenance and expenditures in order to qualify for a matching grant from the state. In April 2017, legislation was signed into law to lower the required spend on racing-related capital maintenance and expenditures to qualify for matching state funds to \$0.3 million. This legislation has had and we believe will continue to have a positive impact on our business.

Also 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. This legislation has had and we believe will continue to 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**

Video Lottery was 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.

## **New York**

The ownership and operation of VLT facilities in New York are governed by the New York State Gaming Commission ("NYSGC") under the New York State Lottery for Education Law. The laws, regulations and supervisory procedures of the NYSGC include: 1) regulating the licensing of video lottery gaming agents, principal key gaming employees and VLT manufacturers; 2) collecting and disbursing VLT revenue; and 3) maintaining compliance in regulatory matters. Changes in New York 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 New York gaming operations. The failure to comply with the rules and regulations of the NYSGC could have a material impact on our business.

During 2012, the Governor of New York and legislative leaders agreed to legalize casino gaming and seek an amendment to the state constitution that would authorize such gaming and, during 2013, New York voters approved a constitutional amendment authorizing up to seven casinos in the state. As of December 31, 2017, New York had awarded four of the seven casino licenses. After a 7-year exclusivity period, the state may award additional licenses. An expansion of gaming in New York includes incentives for the horse racing industry. At this time, it is not possible to determine the impact casino gaming could have on our business.

### *Potential New York Racino Legislation*

In January 2018, New York's Governor released his proposed 2018-2019 budget, which included the removal of the statutory hold-harmless provision for tax parity between newly opened casinos and previously existing racinos. The issue is pending before the legislature. If this legislation is approved, we believe it would increase our taxes and have a negative impact on our business.

### *Potential New York Interactive Gaming Legislation*

In June 2017, the New York legislature passed a bill that will allow Saratoga Casino Hotel to be eligible to use up to 4% of net winnings for capital improvement projects at the facility. The money must be used solely for capital projects that will improve the facility and attract customers. The capital projects must be approved by the lottery and the gaming commission. The bill was signed by the Governor and we believe it will have a positive material impact on our business.

## **Specific State 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 ("ORC") and in accordance with Oregon law. TwinSpires also holds 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 business.

## **Pennsylvania**

On October 30, 2017, the Governor signed legislation (House Bill 271) that will expand gaming in the state, including authorizing interactive gaming. Under the terms of the legislation, Category 1, 2 and 3 casino licensees qualify for an interactive gaming license. Three categories of interactive gaming licenses are available: poker, slot and table games. Each casino licensee has the opportunity to receive any or all of the three categories of licenses for an initial period of five years. If a casino licensee applies for an interactive gaming license within the first ninety days, the casino must apply for all three categories of licenses for a total fee of \$10.0 million. If a casino applies during the ninety to one hundred and twenty day time period, the casino may apply for

one or more categories of licenses for a fee of \$4.0 million each. If, at the end of the one hundred and twenty day period, there are remaining interactive gaming licenses, a qualified gaming entity licensed in any jurisdiction may apply for one or more of the available licenses. A tax rate of 52% of gross interactive gaming revenue ("GIGR") on slots and 14% of GIGR on poker and table games was established. There is an additional 2% tax of daily GIGR for local revenue share payments.

The legislation also removed previous statutory language which provided each Pennsylvania racetrack a local monopoly over all telephone or Internet wagers on horse racing from Pennsylvania residents located within a 35 mile radius of such racetrack. The legislation also lowered the initial license fee for advance depositing wagering operators from \$500,000 to \$50,000 and lowered the annual ongoing license fee from \$100,000 to \$10,000.

We believe this legislation may have a positive impact on business operations.

#### **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, 2017, we employed approximately 4,300 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](http://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](http://www.sec.gov). These reports may also be obtained from the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at (800) SEC-0330.

## ITEM 1A. RISK FACTORS

### Risks Related to the Company

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to our industry and us could materially impact our future performance and results. The factors described below are the most significant risks that could have a material impact on our business.

#### ***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.

- 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 could reduce consumer spending.

Our access to and 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 gaming industry. 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. It is not possible to determine the likelihood or extent of any such 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***

The integrity of the horseracing, casino gaming and pari-mutuel wagering industries must be perceived as fair to patrons and the public at large. To prevent cheating or erroneous payouts, the necessary oversight processes must be in place to ensure that such activities cannot be manipulated. A 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 and our ability to develop and successfully grow our business could be impaired, which could harm our business.

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.

All of our officers and other employees in the United States are at-will employees, which means they may terminate their employment relationship with us at any time and their knowledge of our business and industry would be difficult to replace.

Our continued success and our ability to maintain our competitive position is largely dependent upon, among other things, the skills and efforts of our senior executives and management team. We cannot guarantee that these individuals will remain with

us, and their retention is affected by the competitiveness of our terms of employment and our ability to compete effectively against other companies. 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 inability to retain key personnel could have a material adverse impact on our business.

***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.

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.

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 covenants contained in our debt facilities or our other indebtedness could result in an event of default under our debt facilities or our other indebtedness which, if not cured or waived, could have a material adverse impact on our business. 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 terminate all commitments to extend further credit; or
- require us to apply all of our available cash to repay these borrowings.

If the indebtedness under our debt facilities or our other indebtedness were to be accelerated, our assets may not be sufficient to repay such indebtedness in full.

***Ownership and development of real estate requires significant expenditures and is subject to risk***

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.

***Catastrophic events and system failures could cause a significant and continued disruption to our operations***

A disruption or failure in our systems or operations in the event of a major earthquake, weather event, cyber-attack, 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. Flooding, blizzards, windstorms, earthquakes or hurricanes could adversely affect our locations. While we maintain insurance coverage that may cover certain of the costs that we incur as a result of some natural disasters, our 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 natural disasters in the future, or if natural disasters 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.

Our mobile and online wagering and brick-and-mortar casino businesses depend upon our communications hardware and our computer hardware. We have built certain redundancies into our systems to avoid downtime in the event of outages, system failures or damage; however, certain risks still exist. 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 website and our services results in an immediate, and possibly substantial, loss of revenue. Interruptions in our services or a breach of customers' secure data could cause current or potential users to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our site, and could permanently harm our reputation and brand. These interruptions 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 have property and business interruption insurance covering damage or interruption of our systems; however, this insurance might not be sufficient to compensate us for all losses that may occur.

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); however, each policy has certain exclusions. Our level of property insurance coverage, which is subject to policy maximum limits, 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. 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 debt instruments and other material agreements require us to meet certain standards related to insurance coverage. Failure to satisfy these requirements could result in an event of default under these debt instruments or material agreements.

***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 (such as compliance with Section 404 of the Sarbanes-Oxley Act of 2002) and operating, administrative and information systems.

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

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

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

***The legalization of online real money gaming in the United States and our ability to predict and capitalize on any such legalization may impact our business***

Nevada, Delaware, New Jersey and Pennsylvania have enacted legislation to legalize online real money gaming. In recent years, California, Mississippi, Hawaii, Massachusetts, Iowa, Illinois, New York, Washington D.C. and West Virginia have considered such legislation. If a large number of additional states or the Federal government enact online real money gaming legislation and we are unable to obtain the necessary licenses to operate online real money gaming websites in United States jurisdictions where such games are legalized, our future growth in real money gaming could be materially impaired.

States or the Federal government may legalize online real money gaming 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 real money casino gaming subject to this brick-and-mortar requirement, we may be unable to offer online real money gaming in such jurisdictions if we are unable to establish an affiliation with a brick-and-mortar casino in such jurisdiction on acceptable terms.

In the online real money gaming industry, a significant “first mover” advantage exists. Our ability to compete effectively in respect of a particular style of online real money gaming in the United States may be premised on introducing a style of gaming before our competitors. Failing to do so (“move first”) could materially impair our ability to grow in the online real money gaming space. We may fail to accurately predict when online real money gaming 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 real money gaming will be legalized in additional state jurisdictions, such failure could impair our readiness to introduce online real money gaming offerings in such jurisdictions which could have a material adverse impact on our business.

***Our 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 TwinSpires segment is dependent on wagering on live horse races at our racetracks and third-party racetracks. According to industry sources, pari-mutuel handle on average declined 2% per year from 2008 to 2017 due to a number of factors, including increased competition from other wagering and entertainment alternatives. From 2014 to 2017, pari-mutuel handle on horse

racing has been relatively stable with average annual growth of 1%. 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 TwinSpires 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***

Casino and TwinSpires segments are characterized by the rapid development of new technologies and 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; however, we may not be able 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. 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.

Claims of intellectual property infringement may also require us to enter into costly royalty or license agreements. However, we may not be able to obtain royalty or license agreements on terms acceptable to us. We also may be subject to significant damages or injunctions against the development and sale of our products and services if we become subject to litigation relating to intellectual property infringement.

***We may be unable to adequately protect our own intellectual property rights***

Our results 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.

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.

***Our business is subject to online security risk, including security breaches, and loss or misuse of our stored information as a result of such a breach, including customers' personal information, could lead to government enforcement action or other litigation, potential liability, or otherwise harm our business***

We receive, process, store and use personal information and other customer data. 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. Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to customers or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other player data, may result in governmental enforcement actions, litigation

or public statements against us by consumer advocacy groups or others and could cause our customers to lose trust in us which could have an adverse impact on our business. In the area of information security and data protection, 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 practically implement. The costs of compliance with these types of laws may increase in the future as a result of changes in interpretation or changes in law. Any failure on our part to comply with these types of laws may subject us to significant liabilities.

Third parties we work with, such as vendors, may violate applicable laws or our 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. 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.

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.

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. We have developed 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; however, such measures cannot provide absolute security.

***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. We place great emphasis on control procedures to protect from chargebacks; however, these control procedures 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.

***Work stoppages and other labor problems could negatively impact our future plans***

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 and more successful union activity in the future.

**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 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 and West Virginia whose purses are supplemented by gaming revenue. The opening of the Genting New York Resort at Aqueduct racetrack has enhanced the purse structure at New York racetracks as compared to historical levels. In February 2017, the Rivers Casino & Resort Schenectady opened in New York. Competition from these facilities could harm our ability to attract full fields, which could have a material adverse impact on our business.

***We depend on agreements with industry constituents including horsemen and other racetracks***

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. The agreements between other racetracks and their Horsemen's Groups typically provide that those racetracks must receive consent from the Horsemen's Groups before we can accept wagers on their races. We may not be able to maintain agreements with, or to obtain required consent from, Horsemen's Groups. 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, our horsemen 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 Casino to have an agreement with the FHBPA governing the contribution of a portion of revenue from slot machine gaming to purses on live thoroughbred races conducted by TSG at Calder and an agreement with the Florida Thoroughbred Breeders and Owners Association governing the contribution of a portion of revenue from slot machine gaming to breeders' stallion and special racing awards on live thoroughbred races conducted by TSG at Calder 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 are 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.

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

Personal injuries to jockeys may occur during races or daily workouts. We carry jockey accident insurance at each of our racetracks to cover such injuries; however, there are certain exclusions to our insurance coverage, and we are still subject to litigation from injured participants. 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 may be affected by the outcome of litigation, as this litigation 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 three thoroughbred racetracks: Churchill Downs, Fair Grounds and Arlington; and, through separate joint ventures and equity investments, at three harness racetracks: Miami Valley, Ocean Downs, and Saratoga Harness. A significant portion of our racing revenue is generated during the Kentucky Oaks and Kentucky Derby 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 Oaks or Kentucky Derby, 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 2017, approximately 37,000 thoroughbred horse races were conducted in the United States. We hosted approximately 2,200 races, or about 5.9% 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 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.

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 gaming in states where we operate. Our wagering and racing facilities must meet the licensing requirements of various regulatory authorities, including authorities in Kentucky, Illinois, Louisiana, Florida, Ohio, Maryland and New York. 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 attain 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, and could have a material adverse impact on our business.

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 track” for the purpose of receiving host track revenue generated during periods when no racetrack is conducting live races. Racetracks that are designated as “host track” 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 the related pari-mutuel wagering. 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.

***Our racing business experiences significant seasonal fluctuations in operating results and a decrease in live racing days may adversely impact our business***

We experience significant fluctuations in quarterly and annual operating results due to seasonality and other factors. We have a limited number of live racing days at our racetracks, and the number of live racing days varies from year to year. The number of live racing days may be adversely impacted by factors including inclement weather, our ability to negotiate certain agreements with industry groups (in particular groups working on behalf of horsemen), jockey walkouts and other negotiation issues with independent contractors, and contagious equine disease. The number of live racing days we are able to offer directly affects our results of operations. A significant decrease in the number of live racing days and/or live races offered during our Kentucky Oaks and Kentucky Derby week could have a material adverse impact on our business.

**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 Native American casinos, VLTs, state-sponsored lotteries and other forms of legalized gaming in the U.S. and other jurisdictions. Increased competition in the New York area could provide additional competitive pressure. We do not enjoy 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 where we conduct business, and are subject to extensive state and local regulation. 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.

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 and loss limits. 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. 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. In recent years, the prices of new machines have escalated faster than the rate of inflation. In recent years, slot machine manufacturers have frequently 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.

We materially 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.

***Our business may be adversely affected by legislation prohibiting tobacco smoking.***

Legislation in various forms to ban indoor tobacco smoking in public places has been enacted or introduced in many states and local jurisdictions, including in or near jurisdictions in which we operate. The smoking bans and restrictions have negatively impacted our business in New Orleans, where the New Orleans City Council unanimously approved an ordinance prohibiting smoking in casinos, bars and restaurants beginning in 2015. The enactment of similar legislation in other areas where we operate may adversely affect our business.

**Risks Related to Our TwinSpires Business**

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

TwinSpires.com, our mobile and online wagering business, accepts advance deposit wagers from customers of certain states who set up and fund an account from which they may place wagers via telephone, mobile device or through the Internet. The mobile and online wagering business is heavily regulated, and laws governing advance deposit wagering vary from state to state. Some states have expressly authorized advance deposit wagering by residents, some states have expressly prohibited pari-mutuel wagering and/or advance deposit wagering 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 advance deposit wagering hubs located in different states. We believe that a mobile and online 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 advance deposit wagering 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 gaming 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 advance deposit wagering.

Our expansion opportunities with respect to advance deposit wagering may be limited unless more states amend their laws or regulations to permit advance deposit wagering. Conversely, if states take affirmative action to make advance deposit wagering expressly unlawful, this could have a material adverse impact on our business. Previously existing advance deposit wagering regulations in Illinois expired on December 31, 2012, and we ceased accepting wagers from Illinois residents in January 2013

until Illinois advance deposit wagering regulations were extended in June 2013. We ceased accepting wagers from Texas residents in September 2013 due to the enforcement of an existing Texas law prohibiting advance deposit wagering. 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 mobile and online 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 advance deposit wagering.

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 advance deposit wagering operations.

***Our mobile and online wagering business faces strong competition and we expect competition levels to increase***

Our mobile and online 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 advance deposit wagering businesses. Some of our competitors may have greater resources than we do. We anticipate increased competition in our mobile and online business from various other forms of online gaming.

***Our inability to retain our core customer base or our failure to attract new customers could harm our business***

We utilize technology and marketing relationships to retain current customers and attract new customers. If we are unable to retain our core customer base through robust content offerings and other popular features, if we lose customers to our competitors, or if we fail to attract new customers, our businesses would fail to grow or would be adversely affected.

***Our mobile and online wagering business is subject to a variety of U.S. and foreign 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 in the United States and abroad, 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.

***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 mobile and online wagering products, in general***

Individuals in jurisdictions in which online real money gaming is illegal may nonetheless seek to engage our online real money 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 real money gaming is illegal engage our online real money gaming systems, we may be subject to criminal sanctions, regulatory penalties, the loss of existing or future licenses necessary to offer online real money 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 real money 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 real money gaming in a jurisdiction in which such products are legal.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

We own the following real property:

- Arlington International Race Course in Arlington Heights, IL
- Oxford Casino in Oxford, ME
- Riverwalk Casino in Vicksburg, MS
- Calder Casino in Miami Gardens, FL
- Fair Grounds Slots and VSI and Fair Grounds Race Course in New Orleans, LA

We lease the following facilities:

- Churchill Downs Racetrack in Louisville, KY
- Arlington - We lease ten OTBs in Illinois.
- Fair Grounds - We lease ten OTBs in Louisiana.
- Harlow's Casino in Greenville, MS - We lease the land on which the casino is located.
- TwinSpires.com and Bloodstock Research Information Services in Lexington, KY
- United Tote in Louisville, KY; San Diego, CA and Portland, OR
- Corporate and TwinSpires headquarters in Louisville, KY

In 2002, as part of financing improvements to the Churchill 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.

### ***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 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.

### ***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 Ground 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, which has not yet issued a ruling.

#### ***Pennsylvania Advance Deposit Wagering Suit***

On September 3, 2016, the Company filed a lawsuit in the Commonwealth Court of Pennsylvania styled Churchill Downs Incorporated and Churchill Downs Technology Initiatives Company v. The Commonwealth of Pennsylvania, acting by and through the Department of Revenue; Eileen H. McNulty, Secretary of Revenue of the Commonwealth of Pennsylvania, and her successors in office; Bruce Beemer, Attorney General of the Commonwealth of Pennsylvania, and his successors in office; The Pennsylvania State Horse Racing Commission; Corinne Sweeney; Thomas J. Ellis; C. Edward Rogers, Jr.; Russell B. Jones Jr.; Michele C. Ruddy, Salvatore M. De Bunda, and Russell C. Redding, in their Official Capacity as Commissioners of the Pennsylvania State Horse Racing Commission, and their successors in office (Docket No. 476 MD 2016) challenging the constitutionality of a Pennsylvania law granting each Pennsylvania racetrack a local monopoly over all wagers placed by telephone or through the Internet by Pennsylvania residents located within a 35-mile radius of the track, as well as requiring out-of-state advance deposit wagering companies to pay initial and annual license fees. On October 30, 2017, the Governor of Pennsylvania signed the gaming bill HB 271 into law, which, among other things, addressed the two issues raised in this lawsuit by removing the 35-mile radius restriction and reducing the annual license fees. Given gaming bill HB 271 achieved all goals of the lawsuit, the Company filed a discontinuance to voluntarily terminate the lawsuit on November 6, 2017 and the lawsuit was discontinued on November 8, 2017.

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

In 2010, all Kentucky racetracks and the Kentucky Horse Racing Commission (the "KHRC" and, 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. 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) are pari-mutuel, and the Court set a post-trial briefing schedule for the parties. The Court is expected to render a decision during the second or third quarter of 2018. 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.

#### **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***

Our common stock is traded on the NASDAQ Global Market under the symbol CHDN. As of February 16, 2018, there were approximately 2,760 shareholders of record.

The following table sets forth the high and low closing sale prices, as reported by the NASDAQ Global Market, and dividend declaration information for our common stock during the last two years:

<b>Quarter Ended</b>	<b>2017</b>		<b>2016</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 160.00	\$ 141.00	\$ 148.18	\$ 121.56
Second Quarter	\$ 186.05	\$ 154.60	\$ 149.05	\$ 118.76
Third Quarter	\$ 208.55	\$ 178.85	\$ 151.48	\$ 121.75
Fourth Quarter	\$ 239.50	\$ 204.25	\$ 157.15	\$ 131.70

***Dividends***

Since joining the NASDAQ exchange 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 \$1.52 in December 2017, which was paid in January 2018, and we declared a dividend of \$1.32 in December of 2016, which was paid in January 2017.

***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, 2017:

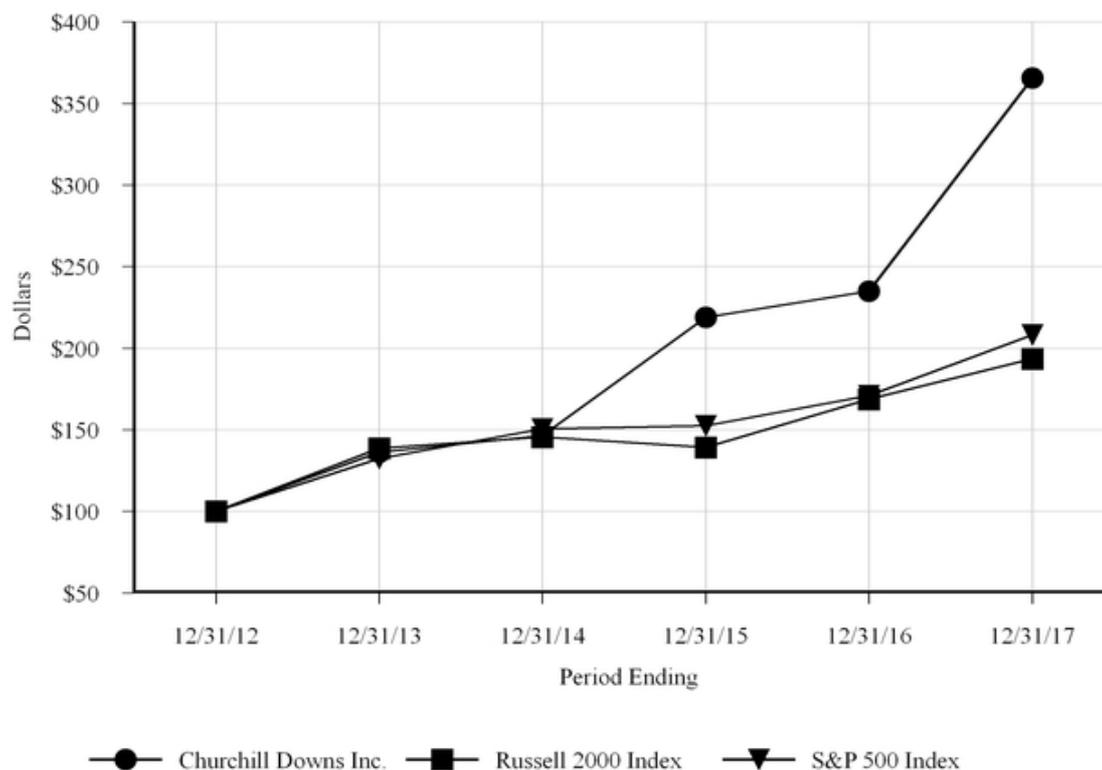
<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares That May Yet Be Purchased under the Plans or Programs (in millions)<sup>(1)</sup></b>
10/1/17-10/31/2017	978	\$ 208.30	—	\$ 78.3
11/1/17-11/30/2017	48	\$ 213.45	—	78.3
12/1/17-12/31/2017	41,246	\$ 232.70	—	78.3
Total	42,272	\$ 232.11	—	

(1) 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 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 S&P 500 Index and the Russell 2000 Index. We consider the Russell 2000 Index to be our most comparable industry peer group index.



	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Churchill Downs Inc.	\$ 100.00	\$ 136.26	\$ 146.35	\$ 219.00	\$ 234.87	\$ 365.63
Russell 2000 Index	\$ 100.00	\$ 138.82	\$ 145.62	\$ 139.19	\$ 168.85	\$ 193.58
S&P 500 Index	\$ 100.00	\$ 132.39	\$ 150.51	\$ 152.59	\$ 170.84	\$ 208.14

**ITEM 6. SELECTED FINANCIAL DATA**

	<b>Years Ended December 31,</b>				
	<b>2017<sup>(a)(b)</sup></b>	<b>2016<sup>(b)(c)</sup></b>	<b>2015<sup>(b)</sup></b>	<b>2014<sup>(b)</sup></b>	<b>2013<sup>(d)</sup></b>
<i>(In millions, except per common share data)</i>					
<b>Operations:</b>					
Net revenue	\$ 882.6	\$ 822.4	\$ 798.6	\$ 798.3	\$ 779.0
Operating income	\$ 145.7	\$ 172.5	\$ 126.3	\$ 103.4	\$ 90.1
Income from continuing operations, net of tax	\$ 122.4	\$ 96.7	\$ 70.8	\$ 56.9	\$ 55.0
Income (loss) from discontinued operations, net of tax	18.1	11.4	(5.6)	(10.5)	(0.1)
Net income	\$ 140.5	\$ 108.1	\$ 65.2	\$ 46.4	\$ 54.9
Net income from continuing operations per common share:					
Basic	\$ 7.76	\$ 5.83	\$ 4.08	\$ 3.28	\$ 3.13
Diluted	\$ 7.64	\$ 5.74	\$ 4.03	\$ 3.24	\$ 3.07
<b>Balance sheet data at period end:</b>					
Total assets	\$ 2,359.4	\$ 2,254.4	\$ 2,277.4	\$ 2,356.3	\$ 1,352.3
Total debt	1,129.2	921.7	781.8	764.1	369.2
Total liabilities	1,719.1	1,569.4	1,660.2	1,656.3	647.5
Shareholders' equity	640.3	685.0	617.2	700.0	704.8
Shareholders' equity per common share	\$ 41.55	\$ 41.56	\$ 37.18	\$ 40.06	\$ 39.27
<b>Other Data:</b>					
Cash flows from operating activities	\$ 218.2	\$ 226.8	\$ 264.5	\$ 141.6	\$ 144.9
Capital maintenance expenditures	33.3	30.9	31.1	22.7	16.9
Capital project expenditures	83.6	23.8	12.4	31.8	31.8
Dividends declared per common share	\$ 1.52	\$ 1.32	\$ 1.15	\$ 1.00	\$ 0.87
Common stock repurchases	\$ 179.5	\$ 27.6	\$ 138.1	\$ 61.6	\$ —

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

(a)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 Act.

(b)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, 2017.

(c)2016 includes a \$23.7 million gain on Calder land sale.

(d)The results from Oxford are included from the date of acquisition on July 17, 2013 through December 31, 2013.

## 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 "Item 8-Financial Statements and Supplemental Data".

### Our Business

#### Executive Overview

We are an industry-leading racing, gaming and online entertainment company anchored by our iconic flagship event - *The Kentucky Derby*. We are a leader in brick-and-mortar casino gaming with approximately 10,000 gaming positions in eight states, and we are the largest, legal online account wagering platform for horseracing in the U.S. We were organized as a Kentucky corporation in 1928, and our principal executive offices are located in Louisville, Kentucky.

On November 29, 2017, the Company entered into the Stock Purchase Agreement to sell its mobile gaming subsidiary, Big Fish Games to the Purchaser. On January 9, 2018, the Company completed the Big Fish Transaction. The Purchaser paid an aggregate consideration of \$990.0 million in cash in connection with the 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 Supplemental Data, the Company has presented Big Fish Games as held for sale and discontinued operations in the accompanying Consolidated Financial Statements and related notes.

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.

Effective January 1, 2017, certain revenue previously included in our Corporate segment was deemed by management to be more closely aligned with our TwinSpires 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; and
  - Other transaction expense, including legal, accounting and other deal-related expense;
- Stock-based compensation expense;
- Asset impairments;
- Gain on Calder land sale;
- Calder exit costs;
- Loss on extinguishment of debt; 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 2017, we continued to take steps to position ourselves for sustainable value creation over the long term.

- We delivered growth in revenue and record net income, diluted EPS, and Adjusted EBITDA.
  - Net revenue grew 7.3% to \$882.6 million;
  - Net income grew 30.0% to \$140.5 million;
  - Diluted net income per share grew 36.6% to \$8.77; and
  - Adjusted EBITDA grew 9.6% to \$366.5 million.
- Our Kentucky Derby and Oaks week set all time-records for attendance and all sources handle. We announced two capital projects during 2017 reflecting our commitment to grow this iconic event, to expand the Derby capacity and pricing, and to enhance customer experiences.
- Our wholly-owned Casino properties delivered strong organic growth from successful marketing and promotional activities. Our Casino equity investments also had strong performance. On January 3, 2017, we acquired an effective 62.5% equity interest in the casino and racetrack at Ocean Downs in Maryland.
- Our TwinSpires.com handle grew to \$1.3 billion, up 16.9% compared to 2016 as we outpaced the industry growth by 15.3 percentage points. Our TwinSpires.com handle represented 11.8% of all pari-mutuel industry handle in 2017, up 1.6 percentage points from 2016.
- On November 29, 2017, the Company entered into the Stock Purchase Agreement to sell its mobile gaming subsidiary, Big Fish Games to Aristocrat Technologies, Inc. (the "Purchaser"). On January 9, 2018, the Company completed the Big Fish Transaction and the Purchaser paid the Company an aggregate consideration of \$990.0 million in cash.
- We redeemed our \$600.0 million 5.375% Senior Notes due in 2021 and issued \$500.0 million 4.75% Senior Notes due in 2028 in December 2017. In addition, we re-financed our 2014 Senior Secured Credit Agreement (the "2014 Credit Agreement") into a new \$700.0 million revolving credit facility (the "Revolver") and a \$400.0 million Senior Secured Term Loan B due 2024 (the "Term Loan B") (collectively, the "2017 Credit Agreement") in December 2017.
- We maintained our focus on cost reductions across all properties and continued to be disciplined in our maintenance and project capital expenditures.

We accomplished these initiatives while returning approximately \$212.4 million to shareholders through dividends and share repurchases in 2017 and completed \$500.0 million of additional share repurchases with a portion of the proceeds from the Big Transaction on February 12, 2018.

As we look to 2018 and beyond, we remain committed to delivering long-term sustainable growth and strong financial results 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 additional long-term value for our shareholders in the coming years.

### **Our Operations**

We manage our operations through five continuing operations segments: Racing, Casino, TwinSpires, Other Investments and Corporate. Due to 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:

(in millions)	Years Ended December 31,			'17 vs. '16 Change	'16 vs. '15 Change
	2017	2016	2015		
Net revenue	\$ 882.6	\$ 822.4	\$ 798.6	\$ 60.2	\$ 23.8
Operating income	145.7	172.5	126.3	(26.8)	46.2
Operating income margin	16.5%	21.0%	15.8%		
Net income	140.5	108.1	65.2	32.4	42.9
Adjusted EBITDA	366.5	334.5	302.5	32.0	32.0

### 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 TwinSpires due to a 34.8% increase in active players and 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 i-Gaming and intangible assets associated with TwinSpires and Arlington recorded in the fourth quarter of 2017, a \$3.8 million increase in other expenses primarily due to the elimination of our Bluff contingent liability in 2016 that did not recur in 2017, a \$3.7 million increase in selling, general and administrative expense, and a \$0.2 million increase from other sources. Partially offsetting these decreases were an \$11.7 million increase from our Casino segment performance, a \$10.5 million increase at TwinSpires driven by an increase in active players and handle growth, a \$1.7 million decrease in our Calder exit costs, a \$1.4 million increase from Racing and a \$1.0 million increase from Other Investments.
- Our net income increased \$32.4 million due to a \$70.6 million decrease in our income tax provision primarily driven by a \$57.7 million provisional benefit recorded in the fourth quarter of 2017 primarily for the re-measurement of our net deferred tax liabilities associated with the Tax Act signed into law on December 22, 2017, which reduced the maximum federal corporate income tax rate from 35% to 21% effective January 1, 2018, an \$8.1 million increase in equity in income of unconsolidated investments due to our acquisition of an effective 62.5% interest in Ocean Downs, a \$6.7 million increase in income from discontinued operations, net of tax related to Big Fish Games, and a \$0.1 million increase from other sources. Partially offsetting these increases were a \$26.8 million decrease in operating income, a \$20.7 million loss on extinguishment of debt in 2017, and a \$5.6 million increase in interest expense associated with higher outstanding debt balances.
- Our Adjusted EBITDA increased \$32.0 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 TwinSpires due to an increase in active players and increase in handle, a \$4.8 million increase from Racing driven by a strong Kentucky Derby and Oaks week performance, and a \$1.0 million increase from Other Investments. Partially offsetting these increases were a \$1.9 million decrease from Big Fish Games primarily due to an increase in personnel and related benefits expense and a \$0.3 million decrease from Corporate.

### Year Ended December 31, 2016, Compared to the Year Ended December 31, 2015

- Our net revenue increased \$23.8 million driven primarily by a \$20.5 million increase from TwinSpires due to a 13.7% increase in handle, a \$3.1 million increase in Racing due to a strong Kentucky Derby and Oaks week performance and a \$0.2 million net increase in other sources of revenue.
- Our operating income increased \$46.2 million driven by a \$23.7 million gain on sale of Calder excess land, an \$11.4 million decrease in Calder exit costs, a \$9.2 million increase from TwinSpires primarily from handle growth, a \$5.3 million increase in Racing due to a strong Kentucky Derby and Oaks week, and a \$2.3 million benefit associated with the elimination of our Bluff contingent liability in 2016. Partially offsetting these improvements was a \$3.8 million increase in selling, general and administrative expense, a \$1.7 million increase in Corporate expenses, and a \$0.2 million decrease from other sources.
- Our net income increased \$42.9 million driven by a \$46.2 million increase in operating income, a \$17.0 million increase in income from discontinued operations, net of tax related to Big Fish Games, a \$6.2 million increase in income from

our equity investments and a \$0.5 million increase from other sources. Partially offsetting these increases were a \$15.1 million increase in net interest expense associated with higher outstanding debt balances, a \$6.1 million increase in our income tax provision primarily from higher operating income from our segments and \$5.8 million gain in 2015 from the sale of our remaining investment in HRTV LLC, which operated a horse racing television network ("HRTV").

- Our Adjusted EBITDA increased \$32.0 million driven by a \$10.9 million increase in Casino as a result of our MVG and SCH investments, as well as organic growth and operational efficiencies within certain owned properties, a \$10.7 million increase from Big Fish Games driven by the growth in our casual and mid-core free-to-play games, a \$7.9 million increase from Racing primarily associated with Churchill Downs, and a \$6.7 million increase from TwinSpires as a result of handle growth. Partially offsetting these increases were a \$4.0 million increase in Corporate expenses driven primarily by a non-recurring 2015 benefit associated with our deferred compensation program and a \$0.2 million decline from our Other Investments.

## **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>	<b>Years Ended December 31,</b>			<b>'17 vs. '16 Change</b>	<b>'16 vs. '15 Change</b>
	<b>2017</b>	<b>2016</b>	<b>2015</b>		
<b>Racing:</b>					
Churchill Downs	\$ 172.7	\$ 165.2	\$ 158.9	\$ 7.5	\$ 6.3
Arlington	63.5	60.8	59.5	2.7	1.3
Fair Grounds	37.9	39.5	41.1	(1.6)	(1.6)
Calder	2.5	2.6	2.7	(0.1)	(0.1)
<b>Total Racing</b>	<b>276.6</b>	<b>268.1</b>	<b>262.2</b>	<b>8.5</b>	<b>5.9</b>
<b>Casino:</b>					
Oxford Casino	90.8	84.6	80.4	6.2	4.2
Calder Casino	85.4	79.1	77.4	6.3	1.7
Harlow's Casino	50.0	48.4	49.0	1.6	(0.6)
Riverwalk Casino	48.2	46.1	49.8	2.1	(3.7)
Fair Grounds Slots	36.5	36.9	39.0	(0.4)	(2.1)
VSI	38.3	36.9	36.9	1.4	—
Saratoga	1.3	0.8	0.4	0.5	0.4
<b>Total Casino</b>	<b>350.5</b>	<b>332.8</b>	<b>332.9</b>	<b>17.7</b>	<b>(0.1)</b>
TwinSpires	256.7	222.9	202.2	33.8	20.7
Other Investments	23.7	20.8	20.1	2.9	0.7
Corporate	—	—	—	—	—
Eliminations	(24.9)	(22.2)	(18.8)	(2.7)	(3.4)
<b>Net Revenue</b>	<b>\$ 882.6</b>	<b>\$ 822.4</b>	<b>\$ 798.6</b>	<b>\$ 60.2</b>	<b>\$ 23.8</b>

### ***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.
- 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 \$1.4 million increase in VSI, and a \$0.1 million increase from other sources, all of which resulted from successful marketing and promotional activities.
- TwinSpires revenue increased \$33.8 million primarily due to a 34.8% increase in active players and handle growth of \$185.7 million, or 16.9%.

- Other Investments revenue increased \$2.9 million due to increased equipment sales and higher totalisator fees from new customers at United Tote.
- Eliminations increased \$2.7 million driven primarily by higher Churchill Downs intercompany revenue from increased wagering by TwinSpires customers on Kentucky Derby and Oaks week.

***Year Ended December 31, 2016, Compared to the Year Ended December 31, 2015***

- Racing revenue increased \$5.9 million due to a \$6.3 million increase at Churchill Downs primarily due to a successful Kentucky Derby and Oaks week and a \$1.3 million increase at Arlington due to an additional 37 host days during 2016 as compared to 2015. Partially offsetting these increases was a decrease of \$1.7 million primarily at Fair Grounds driven by five fewer race days.
- Casino revenue decreased \$0.1 million due to a \$3.7 million decrease at Riverwalk resulting from a loss of market share within an overall declining market, a \$2.1 million decrease at Fair Grounds Slots as it maintained market share despite a decline in the overall New Orleans gaming market associated with stronger competition from the Mississippi Gulf Coast gaming market, and a \$0.6 million decrease at Harlow's due to a declining market which was negatively impacted by adverse weather conditions during 2016. Partially offsetting these decreases were a \$4.2 million increase in Oxford due to successful promotional activities, favorable weather conditions and strong local economy, a \$1.7 million increase at Calder Casino due to growth in the overall market as well as successful marketing and promotional activities, and a \$0.4 million increase at Saratoga from a full year of management fee revenue in 2016.
- TwinSpires revenue increased \$20.7 million primarily due to a 23.3% increase in active players who were acquired from marketing efforts primarily during big horse racing events. Handle growth of \$131.8 million, or 13.7%, outpaced the U.S. thoroughbred industry performance by 13.1 percentage points.
- Other Investments revenue increased \$0.7 million at United Tote due to incremental international equipment sales and higher totalisator fees from new customers.
- Eliminations increased \$3.4 million driven primarily by higher Churchill Downs intercompany revenue from increased wagering by TwinSpires customers on Kentucky Derby and Oaks week.

## Additional Statistical Data by Segment

The following tables provide additional statistical data for our segments:

### Racing and TwinSpires <sup>(1)</sup>

	Years Ended December 31,		
	2017	2016	2015
<i>(\$ in millions)</i>			
<b>Racing</b>			
<b>Churchill Downs</b>			
Race days	70	70	70
Total handle	\$ 614.9	\$ 593.7	\$ 585.2
Net pari-mutuel revenue	\$ 63.1	\$ 61.5	\$ 60.9
Commission %	10.3%	10.4%	10.4%
<b>Arlington</b>			
Race days	71	74	77
Total handle	\$ 385.3	\$ 375.2	\$ 373.8
Net pari-mutuel revenue	\$ 49.9	\$ 48.2	\$ 46.0
Commission %	13.0%	12.8%	12.3%
<b>Fair Grounds</b>			
Race days	83	78	83
Total handle	\$ 274.5	\$ 289.5	\$ 296.9
Net pari-mutuel revenue	\$ 28.1	\$ 29.3	\$ 30.4
Commission %	10.2%	10.1%	10.2%
<b>Total Racing</b>			
Race days	224	222	230
Total handle	\$ 1,274.7	\$ 1,258.4	\$ 1,255.9
Net pari-mutuel revenue	\$ 141.1	\$ 139.0	\$ 137.3
Commission %	11.1%	11.0%	10.9%
<b>TwinSpires</b>			
Total handle	\$ 1,282.6	\$ 1,096.9	\$ 965.1
Net pari-mutuel revenue	\$ 234.8	\$ 201.8	\$ 183.6
Commission %	18.3%	18.4%	19.0%
<b>Eliminations <sup>(2)</sup></b>			
Total handle	\$ (148.8)	\$ (128.4)	\$ (106.0)
Net pari-mutuel revenue	\$ (18.8)	\$ (16.6)	\$ (14.0)
<b>Total</b>			
Handle	\$ 2,408.5	\$ 2,226.9	\$ 2,115.0
Net pari-mutuel revenue	\$ 357.1	\$ 324.2	\$ 306.9
Commission %	14.8%	14.6%	14.5%

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

(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 or cash and tickets placed into slot machines in the aggregate for the period cited. Net gaming revenue includes slot and table games 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,		
	2017	2016	2015
<b>Oxford Casino</b>			
Slot handle	\$ 828.2	\$ 774.0	\$ 722.6
Net slot revenue	68.9	64.9	62.1
Net gaming revenue	86.3	80.4	76.5
<b>Riverwalk Casino</b>			
Slot handle	\$ 616.2	\$ 485.6	\$ 522.2
Net slot revenue	41.1	38.7	42.5
Net gaming revenue	46.0	43.7	47.2
<b>Harlow's Casino</b>			
Slot handle	\$ 553.3	\$ 535.1	\$ 538.6
Net slot revenue	43.5	42.0	42.6
Net gaming revenue	47.3	45.7	46.4
<b>Calder Casino</b>			
Slot handle	\$ 1,191.7	\$ 1,044.7	\$ 986.2
Net slot revenue	81.8	75.8	74.4
Net gaming revenue	81.7	75.7	74.3
<b>Fair Grounds Slots and Video Poker</b>			
Slot handle	\$ 411.4	\$ 405.5	\$ 417.1
Net slot revenue	35.5	35.8	38.0
Net gaming revenue	73.6	72.5	74.7
<b>Total net gaming revenue</b>	<b>\$ 334.9</b>	<b>\$ 318.0</b>	<b>\$ 319.1</b>

## Consolidated Operating Expense

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

(in millions)	Years Ended December 31,			'17 vs. '16 Change	'16 vs. '15 Change
	2017	2016	2015		
Taxes & purses	\$ 197.1	\$ 186.7	\$ 184.1	\$ 10.4	\$ 2.6
Content expense	117.8	103.0	95.3	14.8	7.7
Salaries & benefits	116.8	112.0	109.9	4.8	2.1
Selling, general and administrative expense	83.1	79.4	75.6	3.7	3.8
Depreciation and amortization	56.0	58.4	58.0	(2.4)	0.4
Marketing & advertising expense	24.8	23.1	23.0	1.7	0.1
Impairment of tangible and other intangible assets	21.7	—	—	21.7	—
Calder land sale	—	(23.7)	—	23.7	(23.7)
Calder exit costs	0.8	2.5	13.9	(1.7)	(11.4)
Other, net	1.5	(2.3)	—	3.8	(2.3)
Other operating expense	117.3	110.8	112.5	6.5	(1.7)
Total expense	<u>\$ 736.9</u>	<u>\$ 649.9</u>	<u>\$ 672.3</u>	<u>\$ 87.0</u>	<u>\$ (22.4)</u>
Percent of revenue	83%	79%	84%		

### 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 casinos associated with an increase in slot handle, a \$3.1 million increase in pari-mutuel taxes for TwinSpires due to the increase in handle and a \$2.1 million increase from other sources.
- Content expense increased \$14.8 million driven by the 34.8% increase in active players and 16.9% increase in handle growth at TwinSpires.
- 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 \$2.5 million 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 spend in the TwinSpires segment associated with an increase in active players and handle growth.
- Impairment of tangible and intangible assets increased \$21.7 million driven by a \$13.7 million non-cash impairment charge related to certain i-Gaming 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.
- Gain on 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.
- Calder exit costs decreased \$1.7 million driven by lower costs associated with the grandstand demolition.
- Other, net increased \$3.8 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.
- 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 TwinSpires 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.

#### Year Ended December 31, 2016, Compared to the Year Ended December 31, 2015

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses increased \$2.6 million due to a \$1.1 million increase in casino gaming taxes as a result of casino revenue growth at Oxford, a \$0.9 million increase in purses primarily associated with 37 additional host days at Arlington and a \$0.6 million increase in pari-mutuel taxes primarily related to TwinSpires.
- Content expense increased \$7.7 million due to a \$7.1 million increase in third-party pari-mutuel content fees at TwinSpires associated with an increase in handle and a \$0.6 million increase in other expense.
- Salaries and benefits expense increased \$2.1 million primarily due to a \$1.6 million increase in contract services related to Churchill Downs and a \$0.5 million increase from other sources.
- Selling, general and administrative expense increased \$3.8 million primarily due to a \$1.5 million expense within our Casino segment arising from potential tax penalties associated with the untimely submission of certain informational tax returns, a \$0.8 million increase in stock-based compensation expense, a \$0.6 million increase in professional fees, and an increase of \$0.9 million in employee benefits for severance.
- Gain on Calder land sale increased \$23.7 million from the sale of 61 acres of excess land at Calder, which represents proceeds of \$25.6 million less the book value \$1.9 million.
- Calder exit costs decreased \$11.4 million due to the 2015 non-cash impairment of \$12.7 million to reduce the net book value of Calder's grandstand and ancillary facilities to zero, partially offset by an increase in ongoing grandstand demolition costs of \$1.3 million during 2016 compared to 2015.
- Other, net decreased \$2.3 million due to a benefit recognized in 2016 related to the elimination of a contingent liability established in 2012 for the acquisition of Bluff.
- Other operating expense decreased \$1.7 million in 2016. Other operating expense includes utilities, maintenance, food and beverage costs, property taxes and insurance and other operating expense. The decrease in other operating expenses was driven by a \$4.0 million decrease in our insurance and property primarily from the cessation of pari-mutuel racing and demolition of property at Calder and \$0.1 million decrease from other sources. Partially offsetting the decrease was a \$1.7 million increase in corporate deferred compensation expense and a \$0.7 million increase in TwinSpires third party processing expense related to handle growth.

#### 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:

(in millions)	Years Ended December 31,			'17 vs. '16 Change	'16 vs. '15 Change
	2017	2016	2015		
Racing	\$ (6.1)	\$ (6.0)	\$ (6.6)	\$ (0.1)	\$ 0.6
Casino	(7.5)	(6.9)	(8.4)	(0.6)	1.5
TwinSpires	(5.5)	(5.4)	(5.0)	(0.1)	(0.4)
Other Investments	(1.5)	(1.6)	(0.5)	0.1	(1.1)
Corporate allocated expense	20.6	19.9	20.5	0.7	(0.6)
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.

Effective January 1, 2017, certain revenue previously included in our Corporate segment was deemed by management to be more closely aligned with our TwinSpires 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 related 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.

(in millions)	Year Ended December 31,			'17 vs. '16 Change	'16 vs. '15 Change
	2017	2016	2015		
Racing	\$ 84.5	\$ 79.7	\$ 71.8	\$ 4.8	\$ 7.9
Casino	146.0	125.8	114.9	20.2	10.9
TwinSpires	64.4	56.2	49.5	8.2	6.7
Other Investments	3.7	2.7	2.9	1.0	(0.2)
Corporate <sup>(a)</sup>	(12.4)	(12.1)	(8.1)	(0.3)	(4.0)
Adjusted EBITDA from continuing operations	286.2	252.3	231.0	33.9	21.3
Big Fish Games	80.3	82.2	71.5	(1.9)	10.7
Adjusted EBITDA	\$ 366.5	\$ 334.5	\$ 302.5	\$ 32.0	\$ 32.0

(a) The Corporate segment includes corporate and other certain expenses of \$3.6 million in 2017, \$3.1 million in 2016 and \$3.0 million in 2015 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, 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 due to increased expenses.
- 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.
- TwinSpires Adjusted EBITDA increased \$8.2 million driven by the 34.8% increase in active players and handle growth of 16.9%.
- Other Investments increased \$1.0 million driven primarily by incremental international equipment sales and higher totalisator fees from new customers of United Tote.
- Big Fish Games Adjusted EBITDA decreased \$1.9 million driven by an \$8.0 million decrease in revenue less platform and developments fees and a \$5.3 million increase in expense related to increased headcount and associated benefits and bonuses. These decreases were partially offset by an \$11.4 million decrease in user acquisition spending.

#### **Year Ended December 31, 2016, Compared to the Year Ended December 31, 2015**

- Racing Adjusted EBITDA increased \$7.9 million due to a \$5.2 million increase at Churchill Downs in profitability from the Kentucky Derby and Oaks week driven by increased ticket sales revenue, increased media revenue and record attendance, a \$1.8 million increase at Calder from reduced property taxes and insurance savings from the cessation of pari-mutuel operations, a \$0.8 million increase at Arlington on higher pari-mutuel revenue associated with 37 additional host days during 2016, a \$0.8 million increase at Churchill Downs from non-Kentucky Derby and Oaks week handle increases during the racing meets and a \$0.6 million increase from a decrease in corporate allocated expense. Partially offsetting these improvements was a \$1.3 million decrease at Fair Grounds from a decline in revenue associated with five fewer live race days in 2016 and unfavorable development of general liability insurance claims.
- Casino Adjusted EBITDA increased \$10.9 million driven by a \$5.1 million increase at Saratoga from a full year of management fee revenue and equity income, a \$3.3 million increase at MVG from higher equity income driven primarily

by market share growth and higher net revenue from successful promotional activities, a \$2.7 million increase at Oxford from a strong regional gaming market and higher market share combined with operational expense efficiencies, a \$1.7 million increase at Calder from the implementation of successful marketing and promotional campaigns and a \$1.4 million decrease in corporate expense allocated to the Casino segment. Partially offsetting these improvements was a \$2.0 million decrease at our Mississippi properties due to overall market revenue declines and aggressive local promotional activity and a \$1.3 million decrease at Fair Grounds Slots and VSI as strong competition from the Mississippi Gulf Coast gaming market negatively impacted the New Orleans gaming market.

- TwinSpires Adjusted EBITDA increased \$6.7 million driven by a \$7.3 million favorable impact of increased wagering, net of content costs, associated with handle growth of 13.7% and a 23.3% increase in active players, a \$1.0 million increase at Velocity driven by handle growth of 7.2% and a \$0.5 million increase in other TwinSpires income. These increases were partially offset by a \$0.6 million increase in net taxes and purses, which included the benefit of a \$1.7 million Pennsylvania tax refund in 2016, and a \$1.5 million increase in marketing and advertising costs primarily associated with the addition and retention of customers acquired during Kentucky Derby and Oaks week.
- Corporate Adjusted EBITDA decreased \$4.0 million driven by a \$1.3 million benefit in 2015 related to deferred compensation expense which did not recur in 2016, a \$0.9 million increase in salary expense, a \$0.9 million increase in professional expense, a \$0.6 million decrease in expenses allocated to the other operating segments, and a \$0.3 million increase in expenses from other sources.
- Big Fish Games Adjusted EBITDA increased \$10.7 million driven by a \$72.5 million increase in revenue primarily from our casual and mid-core free-to-play growth, partially offset by a \$36.3 million increase in platform and developer fees, a \$20.2 million increase in user acquisition fees and a \$5.3 million increase in other expenses.

## Reconciliation of Comprehensive Income to Adjusted EBITDA

<i>(in millions)</i>	Years Ended December 31,			'17 vs. '16 Change	'16 vs. '15 Change
	2017	2016	2015		
<b>Comprehensive income</b>	\$ 140.4	\$ 107.5	\$ 64.7	\$ 32.9	\$ 42.8
Foreign currency translation, net of tax	0.1	(0.2)	0.5	0.3	(0.7)
Net change in pension benefits, net of tax	—	0.8	—	(0.8)	0.8
<b>Net income</b>	140.5	108.1	65.2	32.4	42.9
Additions - continuing operations:					
Depreciation and amortization	56.0	58.4	58.0	(2.4)	0.4
Interest expense	49.3	43.7	28.6	5.6	15.1
Loss on extinguishment of debt	20.7	—	—	20.7	—
Income tax (benefit) provision	(19.9)	50.7	44.6	(70.6)	6.1
Additions - discontinued operations:					
Depreciation and amortization	41.1	50.2	51.7	(9.1)	(1.5)
Income tax provision	5.1	9.3	2.3	(4.2)	7.0
EBITDA	292.8	320.4	250.4	(27.6)	70.0
Adjustments to EBITDA - continuing operations:					
Selling, general and administrative:					
Stock-based compensation expense	16.0	13.3	12.5	2.7	0.8
Other charges	1.2	2.5	—	(1.3)	2.5
Other income, expense:					
Interest, depreciation and amortization expense related to equity investments	16.7	10.0	8.5	6.7	1.5
Other charges and recoveries, net	—	0.5	(5.8)	(0.5)	6.3
Impairment of tangible and other intangible assets	21.7	—	—	21.7	—
Gain on Calder land sale	—	(23.7)	—	23.7	(23.7)
Calder exit costs	0.8	2.5	13.9	(1.7)	(11.4)
Other, net	1.5	(2.4)	—	3.9	(2.4)
Adjustments to EBITDA - discontinued operations:					
Stock-based compensation expense	11.1	5.6	1.3	5.5	4.3
Transaction expense, net	4.7	5.8	21.7	(1.1)	(15.9)
Total adjustments to EBITDA	73.7	14.1	52.1	59.6	(38.0)
<b>Adjusted EBITDA</b>	\$ 366.5	\$ 334.5	\$ 302.5	\$ 32.0	\$ 32.0

## Consolidated Balance Sheet

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

<i>(in millions)</i>	Years Ended December 31,		'17 vs. '16 Change
	2017	2016	
Total assets	\$ 2,359.4	\$ 2,254.4	\$ 105.0
Total liabilities	1,719.1	1,569.4	149.7
Total shareholders' equity	640.3	685.0	(44.7)

- Total assets increased \$105.0 million driven by a \$47.4 million increase in property and equipment, net due to our capital project and maintenance expenditures partially offset by depreciation expense, a \$32.2 million increase in investments in unconsolidated affiliates primarily due to the acquired interest of Ocean Downs, a \$28.0 million increase in income tax receivable related to estimated payments in 2017, and a \$16.1 million increase in goodwill due to the

acquisition of BetAmerica. Partially offsetting these increases were a \$13.6 million decrease in escrow receivable related to the Calder land sale from the fourth quarter of 2016 and a \$5.1 million decrease in all other assets.

- Total liabilities increased \$149.7 million driven by a \$207.5 million increase in long-term debt primarily due to share repurchases, a \$11.5 million increase in deferred revenue primarily due to advance sales revenue associated with the 2018 Kentucky Derby and Oaks, a \$4.6 million increase in accounts payable primarily due to simulcast payables, and a \$5.6 million increase in all other liabilities. Partially offsetting these increases were a \$35.5 million decrease in non-current liabilities of discontinued operations held for sell primarily due to a decrease in deferred income tax associated with the Tax Act, a \$24.6 million decrease in deferred income tax primarily due to the Tax Act and a \$19.4 million decrease in current liabilities of discontinued operations held for sell primarily due to a decrease in the Big Fish Games earnout liability.
- Total shareholders' equity decreased \$44.7 million driven by \$190.9 million in repurchases of common stock and \$23.6 million from our annual dividend declared. Partially offsetting these decreases were \$140.5 million in current year net income, \$27.1 million in stock-based compensation, \$2.1 million in issuance of common stock, and a \$0.1 million change 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,			'17 vs. '16 Change	'16 vs. '15 Change
	2017	2016	2015		
Cash Flows from:					
Operating activities	\$ 218.2	\$ 226.8	\$ 264.5	\$ (8.6)	\$ (37.7)
Investing activities	(153.6)	(50.7)	(65.5)	(102.9)	14.8
Financing activities	(59.5)	(201.9)	(190.6)	142.4	(11.3)

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

- Cash provided by operating activities decreased \$8.6 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 \$6.3 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. We anticipate that cash flows from operations over the next twelve months will be adequate to fund our business operations and capital expenditures.
- Cash used in investing activities increased \$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 \$230.1 million reduction in the Big Fish Games earnout payment, a \$75.9 million increase in net borrowings and repayments under long-term debt obligations, and a \$26.4 million increase as a result of the 2016 Big Fish Games deferred payment. 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, a \$13.0 million increase in debt issuance costs, and a \$9.0 million increase from other financing activities.

### Year Ended December 31, 2016, Compared to the Year Ended December 31, 2015

- Cash provided by operating activities decreased \$37.7 million driven by a \$39.6 million decrease in the change in deferred revenue associated with Big Fish Games which benefited 2015, and a \$19.7 million decrease in the fair value of the Big Fish Games earnout payment in related to 2015 earnout milestones. Partially offsetting these decreases were

a \$19.2 million increase in Kentucky Derby and Oaks deferred revenue related primarily to the timing of advanced ticket sales for the 2017 events and \$2.4 million increase in other cash flows.

- Cash used in investing activities decreased \$14.8 million driven by the \$12.0 million in net proceeds from the Calder land sale and the \$24.5 million prior year SCH payment for the 25% equity investment for Saratoga's New York facility. Partially offsetting these decreases were an \$11.4 million increase in capital project expenditures primarily related to Churchill Downs, \$6.0 million of prior year proceeds related to the sale of our remaining investment in HRTV and a \$4.3 million increase in all other investing activities.
- Cash used in financing activities increased \$11.3 million driven by \$300.0 million associated with our 2015 tack-on unsecured notes offering and a \$261.9 outflow in 2016 related to the payment of the Big Fish Games earnout liability. Partially offsetting these increases were a \$420.3 million change in net repayments under our 2014 Credit Agreement, \$108.6 million less in common stock repurchase activity and \$21.7 million in other financing activities.

### ***Credit Facilities and Indebtedness***

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

	<b>Years Ended December 31,</b>		<b>'17 vs. '16 Change</b>
	<b>2017</b>	<b>2016</b>	
<i>(in millions)</i>			
<b>2017 Credit Agreement:</b>			
Term Loan B due 2024	\$ 400.0	\$ —	\$ 400.0
Revolving Credit Facility	239.0	—	239.0
Swing line of credit	3.0	—	3.0
Total 2017 Credit Agreement	642.0	—	642.0
<b>2014 Credit Agreement:</b>			
Senior Secured Credit Facility due 2021	—	135.0	(135.0)
Term Loan A due 2021	—	179.3	(179.3)
Swing line of credit	—	13.2	(13.2)
Total Senior Secured Credit Facility	—	327.5	(327.5)
2028 Senior Notes	500.0	—	500.0
2021 Senior Notes	—	600.0	(600.0)
Total debt	1,142.0	927.5	214.5
Current maturities of long-term debt	4.0	14.2	(10.2)
Total debt, net of current maturities	1,138.0	913.3	224.7
Bond premium and debt issuance costs, net	(12.8)	(5.8)	(7.0)
Net debt	\$ 1,125.2	\$ 907.5	\$ 217.7

### ***2017 Credit Agreement***

On December 27, 2017, we entered into the 2017 Credit Agreement with a syndicate of lenders. The 2017 Credit Agreement replaced the 2014 Credit Agreement. The 2017 Credit Agreement provides for the Revolver and 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. 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 maintenance of a maximum consolidated secured net leverage ratio and 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, 2017. At December 31, 2017, the financial ratios under our 2017 Credit Agreement were as follows:

	<u>Actual</u>	<u>Requirement</u>
Interest coverage ratio	6.8 to 1.0	> 2.5 to 1.0
Consolidated total secured net leverage ratio	1.8 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, 2017, the Company's commitment fee rate was 0.25%.

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 the next 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 the next 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 15<sup>th</sup> and July 15<sup>th</sup> of each year, commencing on July 15, 2018. The Company used the net proceeds from the offering to repay a portion of our \$600.0 million 5.375% Senior Unsecured Notes. In connection with the offering, we capitalized \$7.7 million of debt issuance costs which are being amortized as interest expense over the term of the 2028 Senior Notes.

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

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

#### **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 the 2028 Senior Notes to refinance 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, 2017, are estimated as follows:

<i>(in millions)</i>	<u>2018</u>	<u>2019-2020</u>	<u>2021-2022</u>	<u>Thereafter</u>	<u>Total</u>
Dividends	\$ 23.7	\$ —	\$ —	\$ —	\$ 23.7
Big Fish Games earnout	34.2	—	—	—	34.2
Big Fish Games deferred payment	28.4	—	—	—	28.4
Revolving Credit Facility	—	—	242.0	—	242.0
Interest on Revolving Credit Facility <sup>(1)</sup>	8.5	17.0	16.9	—	42.4
Term Loan B	4.0	8.0	8.0	380.0	400.0
Interest on Term Loan B <sup>(1)</sup>	14.4	28.4	27.8	124.6	195.2
Senior Unsecured Notes	—	—	—	500.0	500.0
Interest on 2028 Senior Notes	24.0	47.5	47.5	119.7	238.7
Operating leases	5.2	8.1	5.3	3.2	21.8
Total	<u>\$ 142.4</u>	<u>\$ 109.0</u>	<u>\$ 347.5</u>	<u>\$ 1,127.5</u>	<u>\$ 1,726.4</u>

(1) Interest includes the estimated contractual payments under our Senior Secured Credit Facility assuming no change in the weighted average borrowing rate of 3.47%, which was the rate in place as of December 31, 2017.

As of December 31, 2017, we had approximately \$2.9 million of unrecognized tax benefits. As of December 31, 2017, the fair value of the Big Fish Games earnout liability is \$34.2 million and the fair value of the Big Fish Games deferred payment to the founders was \$28.4 million, both of which were paid on January 3, 2018.

### **Our Critical Accounting Policies**

Our financial statements have been prepared in conformity with 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 critical accounting policies are:

- revenue recognition;
- goodwill and indefinite 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 Supplemental Data of this Annual Report on Form 10-K.

## **Revenue recognition**

### *Racing and TwinSpires*

Racing and TwinSpires revenue is generated by pari-mutuel wagering on live and simulcast racing content. Additionally, we generate revenue through sponsorships, admissions, television rights, concessions, programs and parking.

Our Racing and TwinSpires revenue and income are influenced by our racing calendar. 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.

Pari-mutuel revenue is recognized upon occurrence of the live race that is presented for wagering and after that live race is made official by the respective state's racing regulatory body. Other operating revenue such as sponsorships, admissions, television rights, concessions, programs and parking revenue are recognized once delivery of the product or service has occurred.

Live racing handle includes patron wagers made on live races at our racetracks and also wagers made on imported simulcast signals by patrons at our racetracks during live meets. Import simulcasting handle includes wagers on imported signals at our racetracks when the respective tracks are not conducting live racing meets, at our OTBs and through our advance deposit wagering providers throughout the year. Export handle includes all patron wagers made on live racing signals sent to other tracks, OTBs and advance deposit wagering providers. Advance deposit wagering consists of patron wagers through an advance deposit account. We retain as revenue a pre-determined percentage or commission on the total amount wagered, and the balance is distributed to the winning patrons.

### *Casino*

Casino revenue represents net casino wins, which is the difference between casino wins and losses. Other operating revenue, such as concession revenue, is recognized once delivery of the product or service has occurred.

### *Big Fish Games*

Our Big Fish Games segment, which we sold in the Big Fish Transaction on January 9, 2018, derives its revenue from the sale of in-app purchases within our free-to-play games and sales of our premium paid games. We offer social casino and casual and mid-core free-to-play games that customers can play at no cost. Customers can purchase virtual currency that can be used to buy virtual items to enhance the game playing experience. These games are distributed primarily through third party mobile platform providers, including but not limited to, Apple and Google.

The proceeds from the sale of virtual goods are initially recorded as deferred revenue and recognized as revenue when persuasive evidence of an arrangement exists, the service has been provided to the user, the price paid by the user is fixed or determinable and collectability is reasonably assured. Determining whether and when some of these criteria have been satisfied requires judgments that may have a significant impact on the timing and amount of revenue we report in each period. For the purpose of determining when the service has been provided to the player, we have determined that an implied obligation exists to the paying user to continue to make available the purchased virtual goods within the game over the estimated life of the virtual goods. For casino games, the life of the virtual goods is estimated to be the time period over which virtual goods are consumed, approximating three days. For all other casual games, the average playing period of paying players of approximately four months represents our best estimate of the average life of virtual goods. The proceeds from the sale of virtual goods are recorded as deferred revenue and recognized as revenue over the estimated life of the virtual goods.

Premium game revenue is derived from our PC subscription business, the Big Fish Game Club, and from the sale of individual games on PC, Mac and mobile devices. Subscribers receive a game credit each month with subscription. The value of the game credit is recognized when a customer redeems the game credit.

We record breakage revenue related to outstanding premium game credits. For credits that are subject to expiration, breakage revenue is recorded when the credits have legally expired. Breakage revenue is recorded for game credits with no legal expiration when we have determined the likelihood of redemption is remote based on historical game credit redemption patterns.

We estimate revenue from digital storefronts, such as Apple and Google, in the current period when reasonable estimates of these amounts can be made. The digital storefronts provide reliable interim preliminary sale reporting data within a reasonable time frame following the end of each month which, when validated against our internal data, allows us to make reasonable estimates of revenue and therefore to recognize revenue during the reporting period. Determination of the appropriate amount of revenue recognized involves judgments and estimates that we believe are reasonable, but it is possible that actual results may differ from our estimates. When we receive the final reports, to the extent not received within a reasonable time frame following the end of each month, we record any differences between estimated revenue and actual revenue in the reporting period when

we determine the actual amounts. Historically, the revenue on the final revenue report has not differed significantly from the reported revenue for the period.

We evaluate our digital storefront agreements in order to determine whether or not we are acting as the principal or as an agent when selling our games which we consider in determining if revenue should be reported gross or net. We primarily use digital storefronts for distributing our social casino and casual free-to-play games. Key indicators that we evaluate in order to reach this determination include:

- the terms and conditions of our contracts with the digital storefronts;
- the party responsible for billing and collecting fees from the end-users, including the resolution of billing disputes;
- whether we are paid a fixed percentage of the arrangement's consideration or a fixed fee for each game;
- whether the party which sets the pricing with the end-user has the credit risk and provides customer support; and
- the party responsible for the fulfillment of the game and that determines the specifications of the game.

Based on the evaluation of the above indicators, we have determined that we are generally acting as a principal and are the primary obligor to end-users for games distributed through digital storefronts; therefore, we recognize revenue related to these arrangements on a gross basis.

### ***Goodwill and indefinite intangible assets***

We perform an annual review for impairment of goodwill and indefinite-lived intangible assets 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 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.

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

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

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;
- interest rate and credit risk; and
- foreign currency exchange 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, 2017, we had \$642.0 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 \$6.4 million.

### ***Foreign currency exchange risk***

Our exposure to foreign currency exchange risk historically was related to Big Fish Games. As a result of the Big Fish Transaction, our foreign currency exposure is not material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

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

(in millions, except per common share data)

	2017	2016	2015
<b>Net revenue:</b>			
Racing	\$ 257.3	\$ 251.1	\$ 248.0
Casino	350.5	332.8	332.9
TwinSpires	255.6	221.6	201.1
Other Investments	19.2	16.9	16.6
<b>Total net revenue</b>	<u>882.6</u>	<u>822.4</u>	<u>798.6</u>
<b>Operating expense:</b>			
Racing	192.5	187.7	189.9
Casino	247.3	241.3	241.1
TwinSpires	170.2	146.7	135.4
Other Investments	17.8	16.5	16.3
Corporate	2.0	1.8	0.1
Selling, general and administrative expense	83.1	79.4	75.6
Impairment of tangible and other intangible assets	21.7	—	—
Gain on Calder land sale	—	(23.7)	—
Calder exit costs	0.8	2.5	13.9
Other, net	1.5	(2.3)	—
<b>Total operating expense</b>	<u>736.9</u>	<u>649.9</u>	<u>672.3</u>
<b>Operating income</b>	<u>145.7</u>	<u>172.5</u>	<u>126.3</u>
<b>Other income (expense):</b>			
Interest expense	(49.3)	(43.7)	(28.6)
Loss on extinguishment of debt	(20.7)	—	—
Equity in income of unconsolidated investments	25.5	17.4	11.2
Miscellaneous, net	1.3	1.2	6.5
<b>Total other expense</b>	<u>(43.2)</u>	<u>(25.1)</u>	<u>(10.9)</u>
Income from continuing operations before provision for income taxes	102.5	147.4	115.4
Income tax benefit (provision)	19.9	(50.7)	(44.6)
Income from continuing operations, net of tax	122.4	96.7	70.8
Income (loss) from discontinued operations, net of tax	18.1	11.4	(5.6)
<b>Net income</b>	<u>\$ 140.5</u>	<u>\$ 108.1</u>	<u>\$ 65.2</u>
<b>Net income (loss) per common share data - basic:</b>			
Continuing operations	\$ 7.76	\$ 5.83	\$ 4.08
Discontinued operations	1.15	0.69	(0.33)
<b>Net income per common share - basic</b>	<u>\$ 8.91</u>	<u>\$ 6.52</u>	<u>\$ 3.75</u>
<b>Net income (loss) per common share data - diluted:</b>			
Continuing operations	\$ 7.64	\$ 5.74	\$ 4.03
Discontinued operations	1.13	0.68	(0.32)
<b>Net income per common share - diluted</b>	<u>\$ 8.77</u>	<u>\$ 6.42</u>	<u>\$ 3.71</u>
Weighted average shares outstanding:			
Basic	15.7	16.4	17.2
Diluted	16.0	16.8	17.6
<b>Other comprehensive loss:</b>			
Foreign currency translation, net of tax	(0.1)	0.2	(0.5)
Change in pension benefits, net of tax	—	(0.8)	—
Other comprehensive loss	(0.1)	(0.6)	(0.5)
<b>Comprehensive income</b>	<u>\$ 140.4</u>	<u>\$ 107.5</u>	<u>\$ 64.7</u>

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

**CHURCHILL DOWNS INCORPORATED**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31,**

(in millions)

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 51.7	\$ 45.3
Restricted cash	31.2	34.3
Accounts receivable, net of allowance for doubtful accounts of \$3.6 in 2017 and \$3.5 in 2016	49.6	56.6
Receivable from escrow	—	13.6
Income taxes receivable	35.6	7.6
Other current assets	18.9	17.8
Current assets of discontinued operations held for sale	69.1	70.8
Total current assets	256.1	246.0
Property and equipment, net	608.0	560.6
Investment in and advances to unconsolidated affiliates	171.3	139.1
Goodwill	317.6	301.5
Other intangible assets, net	169.4	174.0
Other assets	13.6	9.9
Long-term assets of discontinued operations held for sale	823.4	823.3
Total assets	\$ 2,359.4	\$ 2,254.4
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 54.1	\$ 49.5
Purses payable	12.5	12.5
Account wagering deposit liabilities	24.0	25.0
Accrued expense	75.8	73.2
Deferred revenue	70.9	64.3
Current maturities of long-term debt	4.0	14.2
Dividends payable	23.7	21.8
Current liabilities of discontinued operations held for sale	188.2	207.6
Total current liabilities	453.2	468.1
Long-term debt (net of current maturities and loan origination fees of \$5.1 in 2017 and \$0.5 in 2016)	632.9	312.8
Notes payable (including premium of \$2.5 in 2016 and net of debt issuance costs of \$7.7 in 2017 and \$7.8 in 2016)	492.3	594.7
Deferred revenue	29.3	24.4
Deferred income taxes	40.6	63.2
Other liabilities	16.0	13.9
Non-current liabilities of discontinued operations held for sale	54.8	92.3
Total liabilities	1,719.1	1,569.4
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 0.3 shares authorized; no shares issued or outstanding	—	—
Common stock, no par value; 50.0 shares authorized; 15.4 shares issued and outstanding in 2017 and 16.5 in 2016	7.3	116.5
Retained earnings	634.3	569.7
Accumulated other comprehensive loss	(1.3)	(1.2)
Total shareholders' equity	640.3	685.0
Total liabilities and shareholders' equity	\$ 2,359.4	\$ 2,254.4

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, 2017, 2016 and 2015**

<i>(in millions, except per common share data)</i>	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount			
<b>Balance, December 31, 2014</b>	17.5	\$ 262.3	\$ 437.9	\$ (0.1)	\$ 700.1
Net income			65.2		65.2
Issuance of common stock	—	3.5			3.5
Tax windfall from stock-based compensation		5.5			5.5
Repurchase of common stock	(1.1)	(151.1)			(151.1)
Issuance of restricted stock awards, net of forfeitures	0.2	—			—
Stock-based compensation		13.8			13.8
Cash & stock unit dividends, \$1.15 per share			(19.3)		(19.3)
Foreign currency translation adjustment, net of (\$0.2) tax				(0.5)	(0.5)
<b>Balance, December 31, 2015</b>	16.6	134.0	483.8	(0.6)	617.2
Net income			108.1		108.1
Issuance of common stock	0.1	2.6			2.6
Repurchase of common stock	(0.3)	(39.0)			(39.0)
Issuance of restricted stock awards, net of forfeitures	0.1	—			—
Stock-based compensation		18.9			18.9
Cash & stock unit dividends, \$1.32 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)
<b>Balance, December 31, 2016</b>	16.5	116.5	569.7	(1.2)	685.0
Net income			140.5		140.5
Issuance of common stock	—	2.1			2.1
Repurchase of common stock	(1.2)	(138.4)	(52.5)		(190.9)
Issuance of restricted stock awards, net of forfeitures	0.1	—			—
Stock-based compensation		27.1			27.1
Cash & stock unit dividends, \$1.52 per share			(23.4)		(23.4)
Foreign currency translation, net of less than (\$0.1) tax				(0.1)	(0.1)
<b>Balance, December 31, 2017</b>	15.4	\$ 7.3	\$ 634.3	\$ (1.3)	\$ 640.3

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,**

(in millions)

	2017	2016	2015
<b>Cash flows from operating activities:</b>			
Net income	\$ 140.5	\$ 108.1	\$ 65.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	97.1	108.6	109.7
Game software development amortization	17.5	17.2	9.7
Acquisition expenses, net	3.9	3.4	34.7
Gain on sale of equity investments	—	—	(5.8)
Earnings from equity investments, net	(25.5)	(17.4)	(11.2)
Distributed earnings from equity investments	18.0	15.6	15.2
Stock-based compensation	27.1	18.9	13.8
Deferred income taxes	(65.0)	35.4	(3.4)
Loss on impairment of assets	21.7	—	—
Loss on extinguishment of debt	20.7	—	—
(Gain) loss on sale of assets	0.1	(23.6)	0.3
Big Fish Games earnout payment	(2.4)	(19.7)	—
Big Fish Games deferred payment	—	(2.0)	—
Other	1.7	2.0	4.6
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of business acquisitions:			
Other current assets and liabilities	(10.4)	(10.2)	(15.3)
Game software development	(22.1)	(22.1)	(19.8)
Income taxes	(27.4)	(6.6)	28.5
Deferred revenue	17.2	17.9	38.3
Other assets and liabilities	5.5	1.3	—
Net cash provided by operating activities	<u>218.2</u>	<u>226.8</u>	<u>264.5</u>
<b>Cash flows from investing activities:</b>			
Capital maintenance expenditures	(33.3)	(30.9)	(31.1)
Capital project expenditures	(83.6)	(23.8)	(12.4)
Receivable from escrow	13.6	(13.6)	—
Acquisition of businesses, net of cash acquired	(24.2)	—	(0.9)
Investment in joint ventures	(24.0)	(8.0)	(25.0)
Proceeds from sale of assets	—	25.6	0.2
Other	(2.1)	—	3.7
Net cash used in investing activities	<u>(153.6)</u>	<u>(50.7)</u>	<u>(65.5)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from borrowings under long-term debt obligations	2,050.4	727.1	1,004.2
Repayments of borrowings under long-term debt obligations	(1,835.8)	(588.4)	(985.8)
Call premium on 2021 Senior Notes	(16.1)	—	—
Debt issuance costs	(14.4)	(1.4)	(4.6)
Repurchase of common stock	(190.9)	(39.0)	(147.6)
Payment of dividends	(21.5)	(19.1)	(17.4)
Common stock issued	2.1	2.2	1.2
Big Fish Games earnout payment	(31.8)	(261.9)	—
Big Fish Games deferred payment	—	(26.4)	(28.5)
Tax refund payments to Big Fish Games equity holders	—	(0.4)	(17.7)
Other	(1.5)	5.4	5.6
Net cash used in financing activities	<u>(59.5)</u>	<u>(201.9)</u>	<u>(190.6)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>5.1</u>	<u>(25.8)</u>	<u>8.4</u>
Effect of exchange rate changes on cash	0.5	—	(1.8)
Cash and cash equivalents, beginning of year	48.7	74.5	67.9
Cash and cash equivalents, end of year	<u>\$ 54.3</u>	<u>\$ 48.7</u>	<u>\$ 74.5</u>

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

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

<i>(in millions)</i>	2017	2016	2015
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the period for:			
Interest	\$ 47.7	\$ 40.0	\$ 25.2
Income taxes	75.9	32.4	41.5
<b>Schedule of non-cash investing and financing activities:</b>			
Dividends payable	\$ 23.7	\$ 21.8	\$ 19.1
Property and equipment additions included in accounts payable and accrued expense	9.6	4.2	1.5
Repurchase of common stock in payment of income taxes on stock-based compensation included in accrued expense	1.3	6.4	3.6

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 are a leader in brick-and-mortar casino gaming with approximately 10,000 gaming positions in eight states, and we are the largest, legal online account wagering platform for horseracing in the U.S. We were organized as a Kentucky corporation in 1928, and our principal executive offices are located in Louisville, Kentucky.

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., a Washington corporation ("Big Fish Games"), to Aristocrat Technologies, Inc., a Nevada corporation (the "Purchaser"), 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 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 3, Discontinued Operations, for further information on the discontinued operations relating to the Big Fish Transaction.

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. Our operating segments, all of which are included in continuing operations with the exception of Big Fish Games, 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 licensing rights, food and beverage services and alternative uses of our pari-mutuel facilities.

*Casino*: slot machines, table games, video poker ancillary food and beverage services and hotel and other miscellaneous operations. In addition, we include our 50% joint venture in Miami Valley Gaming ("MVG"), our 25% equity investment in Saratoga Casino Holdings LLC ("SCH"), and an effective 62.5% equity investment in Ocean Downs.

*TwinSpires*: mobile and online pari-mutuel wagering business on TwinSpires.com, 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.

*Other Investments*: pari-mutuel wagering systems for racetracks and other investments.

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

*Big Fish Games*: social casino, casual and mid-core free to play, and premium paid games for PC, Mac, and mobile devices. Refer to Note 3, Discontinued Operations, for further information relating to the Big Fish Transaction.

## 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 revenue recognition, goodwill and other intangible assets, and property and equipment.

### **Reclassifications**

We have reclassified certain items in the accompanying Consolidated Financial Statements for prior years to be comparable with 2017 classifications. Effective January 1, 2017, certain revenue previously included in our Corporate segment was deemed by management to be more closely aligned with our TwinSpires segment. The prior year amounts were reclassified to conform to this presentation.

There was no impact from these reclassifications on net income or cash flows.

### **Revenue Recognition**

#### *Racing and TwinSpires*

Racing and TwinSpires revenue is generated by pari-mutuel wagering on live and simulcast racing content. Additionally, we generate revenue through sponsorships, admissions, television rights, concessions, programs and parking.

Our Racing and TwinSpires revenue and income are influenced by our racing calendar. 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.

Pari-mutuel revenue is recognized upon occurrence of the live race that is presented for wagering and after that live race is made official by the respective state's racing regulatory body. Other operating revenue from sponsorships, admissions, television rights, concessions, programs and parking are recognized once delivery of the product or service has occurred.

Live racing handle includes patron wagers made on live races at our racetracks and also wagers made on imported simulcast signals by patrons at our racetracks during live meets. Import simulcasting handle includes wagers on imported signals at our racetracks when the respective tracks are not conducting live racing meets, at our OTBs and through our advance deposit wagering providers throughout the year. Export handle includes all patron wagers made on live racing signals sent to other tracks, OTBs and advance deposit wagering providers. Advance deposit wagering consists of patron wagers through an advance deposit account. The pari-mutuel revenue earned in 2017 approximated 18.3% of handle for the TwinSpires segment and 11.1% of handle for the Racing segment.

Deferred revenue includes advance sales related to the Kentucky Oaks and Kentucky Derby races and other advance billings on racing events. Revenue from these advance billings are recognized when the related event occurs. Deferred revenue also includes advance sales of Personal Seat Licenses ("PSLs") and luxury suites. PSLs represent the ownership of a specific seat for the Kentucky Oaks, Kentucky Derby and, in certain cases, Breeders' Cup races at Churchill Downs Racetrack ("Churchill Downs") and have a contractual life between one and thirty years.

Revenue from PSLs is recognized when the Kentucky Oaks, Kentucky Derby and Breeders' Cup races occur on a ratable basis over the term of the contract. Luxury suites are sold for specific racing events as well as for a predetermined contractual term. Revenue related to the sale of luxury suites is recognized when the related event occurs.

#### *Casino*

Casino revenue represents net casino wins which is the difference between casino wins and losses. Other operating revenue, such as concession revenue, is recognized once delivery of the product or service has occurred.

#### *Big Fish Games*

Big Fish Games revenue is primarily derived from the sale of in-app purchases within our free-to-play games and sales of our premium paid games. We offer social casino and casual and mid-core free-to-play games that customers can play at no cost. Customers can purchase virtual currency that can be used to buy virtual items to enhance the game playing experience. These games are distributed primarily through third party mobile platform providers, including but not limited to, Apple and Google.

The proceeds from the sale of virtual goods are initially recorded as deferred revenue and recognized as revenue when persuasive evidence of an arrangement exists, the service has been provided to the user, the price paid by the user is fixed or determinable, and collectability is reasonably assured. Determining whether and when some of these criteria have been satisfied requires judgments that may have a significant impact on the timing and amount of revenue we report in each period. For the purpose of determining when the service has been provided to the player, we have determined that an implied obligation exists to the paying user to continue to make available the purchased virtual goods within the game over the estimated life of the virtual goods. For social casino games, the life of the virtual goods is estimated to be the time period over which virtual goods are consumed, approximating three days. For all other casual games, the average playing period of paying players of approximately four months

represents our best estimate of the average life of virtual goods. The proceeds from the sale of virtual goods are recorded as deferred revenue and recognized as revenue over the estimated life of the virtual goods.

Premium game revenue is derived from our PC subscription business, the Big Fish Game Club and from the sale of individual games on PC, Mac and mobile devices. Subscribers receive a game credit each month with their subscription. The value of the game credit is recognized when a customer redeems the game credit.

We record breakage revenue related to outstanding premium game credits. For credits that are subject to expiration, breakage revenue is recorded when the credits have legally expired. Breakage revenue is recorded for game credits with no legal expiration when we have determined the likelihood of redemption is remote based on historical game credit redemption patterns.

We estimate revenue from digital storefronts, such as Apple and Google, in the current period when reasonable estimates of these amounts can be made. The digital storefronts provide reliable interim preliminary sales reporting data within a reasonable time frame following the end of each month, which, when validated against our internal data, allows us to make reasonable estimates of revenue and therefore to recognize revenue during the reporting period. Determination of the appropriate amount of revenue recognized involves judgments and estimates that we believe are reasonable, but it is possible that actual results may differ from our estimates. When we receive the final reports, to the extent not received within a reasonable time frame following the end of each month, we record any differences between estimated revenue and actual revenue in the reporting period when we determine the actual amounts. Historically, the revenue on the final revenue report has not differed significantly from the reported revenue for the period.

We evaluate our digital storefront agreements in order to determine whether or not we are acting as the principal or as an agent when selling our games, which we consider in determining if revenue should be reported gross or net. We primarily use digital storefronts for distributing our social casino and casual free-to-play games. Key indicators that we evaluate in order to reach this determination include:

- the terms and conditions of our contracts with the digital storefronts;
- the party responsible for billing and collecting fees from the end-users, including the resolution of billing disputes;
- whether we are paid a fixed percentage of the arrangement's consideration or a fixed fee for each game;
- whether the party which sets the pricing with the end-user has the credit risk and provides customer support; and
- the party responsible for the fulfillment of the game and that determines the specifications of the game.

Based on the evaluation of the above indicators, we have determined that we are generally acting as a principal and are the primary obligor to end-users for games distributed through digital storefronts; and therefore, we recognize revenue related to these arrangements on a gross basis.

### ***Goodwill and Indefinite Intangible Assets***

During 2017, the Company changed its annual goodwill and indefinite-lived impairment testing date from March 31 to April 1 of each year. As a result, the annual impairment tests were performed as of March 31, 2017 and April 1, 2017. The change was made to better align with our forecasting process and to provide the Company with additional time to complete our annual goodwill and indefinite-lived intangible impairment testing in advance of our quarterly reporting. The Company believes this change in measurement date, which represents a change in method of applying an accounting principle, is preferable under the circumstances. The resulting change in accounting principle related to changing the annual impairment testing date did not delay, accelerate, or avoid an impairment charge.

We perform an annual review for impairment of goodwill and indefinite-lived intangible assets 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 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 slots gaming rights and casinos' trade names are considered indefinite-lived intangible assets that do not require amortization based on our future expectations to operate our gaming facilities and use the trade names indefinitely and our historical experience in renewing these intangible assets at minimal cost with various state gaming commissions. These indefinite lived intangible assets are tested annually, or more frequently, if indicators of impairment exist, by comparing the fair value of the recorded assets to their carrying amount. If the carrying amount of the slots gaming rights and trade name intangible assets exceed fair value, an impairment loss is recognized.

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

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 market participants when evaluating a property. Changes in estimates or application of alternative assumptions could produce significantly different results.

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.

### ***Income Taxes***

We use estimates and judgments for financial reporting to determine our current tax liability and deferred taxes. In accordance with the liability method of accounting for income taxes, we recognize the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in the consolidated financial statements or tax returns.

Adjustments to deferred taxes are determined based upon the changes in differences between the book basis and tax basis of our assets and liabilities and measured using enacted tax rates we estimate will be applicable when these differences are expected to reverse. Changes in current tax laws, enacted tax rates or the estimated level of taxable income or non-deductible expense could change the valuation of deferred tax assets and liabilities and affect the overall effective tax rate and tax provision.

When tax returns are filed, it is highly certain that some positions taken will be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that will be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying Consolidated Balance Sheets, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

### ***Cash and Cash Equivalents***

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

### ***Restricted Cash and Account Wagering Deposit Liabilities***

Restricted cash represents amounts due to horsemen for purses, stakes and awards as well as customer deposits collected for advance deposit wagering. Account wagering deposit liabilities consist of deposits received from TwinSpires.com and Velocity customers to be used to fund wagering through the TwinSpires players' accounts.

### ***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.

### ***Game Software Development***

Game software development costs for Big Fish Games includes costs for internally developed and purchased third party software for free-to-play games and premium game software purchased from third parties.

Costs associated with internally developed online only free-to-play game software are capitalized according to the accounting guidance governing computer software developed or obtained for internal use. Costs associated with internally developed free-to-play game software that allows the user to access content in both an online and offline mode are capitalized as game software development once technological feasibility of the software has been established.

Any costs incurred during the preliminary project stage are expensed; costs incurred during the application development stage are capitalized as game software development and costs incurred during the post-implementation/operation stage are expensed. Any costs incurred prior to the establishment of technological feasibility are expensed when incurred as research and development costs.

Once the software is placed in operation, we amortize the capitalized software cost as an operating expense over its estimated economic useful life, which is typically 18 months to three years. In addition, enhancements to existing games that increase the functionality of the game are capitalized as game software development and amortized as an operating expense over the game's estimated economic useful life, which is typically 18 months.

Purchased third party free-to-play game software is capitalized as game software development and amortized, once placed into service, over the game's estimated economic useful life, which is typically 18 months.

Purchased third party software for premium games is capitalized as game software development, and amortized, once placed into service, over the game's estimated economic useful life, which is typically 12 months.

### ***Internal Use Software and Research & Development***

Internal use software costs for TwinSpires and Big Fish Games software are capitalized in property and equipment, 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 in accordance with accounting guidance governing computer software developed or obtained for internal use primarily related to TwinSpires of approximately \$7.2 million in 2017, \$6.7 million in 2016, and \$8.9 million in 2015. We incurred amortization expense of approximately \$6.3 million in 2017, \$6.0 million in 2016, and \$6.2 million in 2015 for projects which had been placed in service. Capitalized internal use software is classified as equipment and included in property and equipment, net in the accompanying Consolidated Balance Sheets.

Research and development expenditures are expensed as incurred. We recognized research and development expense of \$39.6 million in 2017, \$39.0 million in 2016, and \$39.4 million in 2015 specific to Big Fish Games, which is included in discontinued operations in the accompanying Consolidated Statements of Comprehensive Income.

### ***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 state and local jurisdictions in which we conduct business. Individual states and local jurisdictions set tax rates which range from 1.5% to 46% of net casino revenue and from 0.5% to 10% of the total pari-mutuel handle wagered by patrons.

#### ***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 to be paid out.

#### ***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 materially different reserve estimates. We believe the estimates of future liability are reasonable based upon this methodology; however, changes in key variables and assumptions, or generally in health care costs, accident frequency and severity could materially affect the estimate for these reserves.

#### ***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 reported in continuing operations of approximately \$24.8 million in 2017, \$23.1 million in 2016, and \$23.0 million in 2015. We incurred advertising and marketing expense reported in discontinued operations of approximately \$116.6 million in 2017, \$127.9 million in 2016, and \$107.7 million in 2015.

### ***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 during the period, excluding unvested restricted stock and stock options held by employees. Diluted EPS is based upon the weighted average number of common and potential common shares outstanding during the period. Potential common shares result from the assumed exercise of outstanding stock options as well as unvested restricted stock, the proceeds of which are then assumed to have been used to repurchase outstanding common stock using the treasury stock method. For periods in which we report a net loss, all potential common shares are considered anti-dilutive and are excluded from calculations of Diluted EPS. For periods in which we report net income, potential common shares with exercise prices in excess of our average common stock fair value for the related period are considered anti-dilutive and are excluded from calculations of Diluted EPS.

### ***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, on a reporting period basis, 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 12, Shareholders' Equity, for additional information on our share repurchases.

### ***Recent Accounting Pronouncements - effective in 2018***

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We will adopt the new revenue standard in 2018 using the modified retrospective method. The application of the new standard will result in cumulative effect adjustments being recognized through opening retained earnings on January 1, 2018.

While we are continuing to assess all potential impacts of the new revenue standard, we have identified the following areas of impact:

- (i) The first area relates to accounting for breakage revenue for the outstanding premium game club credits for Big Fish Games; however, due to the Big Fish Transaction, this will not have an impact on our revenues prospectively. Currently, Big Fish Games records breakage revenue for outstanding premium game credits when the credits have legally expired. Under the new standard, Big Fish Games will be required to recognize the expected breakage related to outstanding premium game club credits as revenue in proportion to the pattern of game club credits redeemed by customers.
- (ii) The second area relates to accounting for loyalty points under our various rewards programs which are earned by customers at our casinos. Our accumulated loyalty points are redeemable for free complimentarys, including free game play, food and beverage. The estimated liability for unredeemed points is currently accrued based on expected redemption rates and the estimated costs of the services or merchandise to be provided. Under the new standard, we will defer the standalone selling price of the complimentarys until the future revenue transaction occurs. Although the exact amount of the increase to our point liabilities has not yet been determined, we do not anticipate it will result in a significant cumulative effect adjustment nor a significant impact on our revenues prospectively.
- (iii) The third area relates to our presentation of accounts receivable and deferred revenue related to advanced billings in our Racing segment. Under the current standard, we recognize an accounts receivable asset and related deferred revenue liability at the time of billing. The new standard requires recognition of an accounts receivable asset and related deferred revenue liability when we have a right to consideration under the contract. This change will not result in a cumulative adjustment upon adoption or timing of revenue recognition.

Another aspect of Topic 606 the Company is currently evaluating is whether we are acting as the principal or as the agent in determining if revenue should be reported gross or net in our Racing and TwinSpires segments based on the terms of our contracts and governing laws. Currently, we report commissions and simulcast fees and certain pari-mutuel taxes paid on a gross basis. Any changes related to principal versus agent determination would only impact the presentation of net revenue and expense and there would be no cumulative effect adjustment nor any impact on net income or cash flows prospectively.

Under the new revenue standard, entities also are required to disaggregate revenue into categories that depict how economic factors affect the nature, amount, timing and uncertainty of revenue and cash flows. See Note 20, Segment Information, for the disaggregation of our revenue under the current accounting standards in effect for each of the three years in the period ended December 31, 2017. Upon adoption of the new revenue standard, we expect to disaggregate our revenues consistently with the disaggregation reflected in Note 20, Segment Information. We are currently evaluating the new revenue standard's disclosure requirements, beyond the requirement to disaggregate revenue. We are also assessing the impact of the new revenue standard on our internal controls over financial reporting.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash. 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 will also be 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. The guidance will become effective in 2018 and is to be applied at the beginning of the earliest comparative period of financial statements using the retrospective method. Currently, our statement of cash flows reconciles total cash and cash equivalents to the balance sheet. While we are continuing to assess all potential impacts of the standard, we will be required to reconcile total cash, cash equivalents, and restricted cash from our statement of cash flows to the balance sheet.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance will become effective in 2018 and is to be applied at the beginning of the earliest comparative period of financial statements using the retrospective method. We do not expect a material impact to our statement of cash flows as a result of this new standard.

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 will become effective in 2018 and is to be applied prospectively. We will assess the impact of the new accounting guidance as necessary for future transactions.

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 will become effective in 2018 and is to be applied prospectively. We will assess the impact of the new accounting guidance as necessary for future transactions.

#### ***Recent Accounting Pronouncements - effective in 2019 or thereafter***

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. As currently issued, ASU 2016-02 will be effective in 2019 with earlier adoption permitted, and is to be applied at the beginning of the earliest comparative period in the financial statements using a modified retrospective approach. We are currently evaluating the impact of our pending adoption of this new standard, and we currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of ASU 2016-02.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities, which makes more financial and nonfinancial hedging strategies eligible for hedge accounting. The new guidance is intended to more closely align hedge accounting with entities' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The new standard is effective in 2019 with early adoption permitted in any interim or annual period prior to 2019. We are currently evaluating the timing of our adoption and impact of the new accounting guidance on our financial statements and related disclosures.

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 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. DISCONTINUED OPERATIONS

On January 9, 2018, pursuant to the Stock Purchase Agreement entered into on November 29, 2017, 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 following table presents the financial results of Big Fish Games included in "Income (loss) from discontinued operations, net of tax":

<i>(in millions)</i>	<b>Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net revenue	\$ 466.0	\$ 486.2	\$ 413.7
Operating expenses	369.0	398.9	340.1
Selling, general and administrative expense	27.8	20.9	15.2
Research and development	39.6	39.0	39.4
Transaction expense, net	4.7	5.8	21.7
Total operating expense	441.1	464.6	416.4
Operating income (loss)	24.9	21.6	(2.7)
Other expense	(1.7)	(0.9)	(0.6)
Income (loss) from discontinued operations before provision for income taxes	23.2	20.7	(3.3)
Income tax provision	(5.1)	(9.3)	(2.3)
Income (loss) from discontinued operations, net of tax	<u>\$ 18.1</u>	<u>\$ 11.4</u>	<u>\$ (5.6)</u>

Churchill Downs Incorporated  
Notes to Consolidated Financial Statements

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 and 2016:

<i>(in millions)</i>	December 31,	
	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2.6	\$ 3.4
Accounts receivable	42.9	24.7
Game software development, net	6.9	9.6
Other current assets	16.7	33.1
Current assets of discontinued operations held for sale	69.1	70.8
Property and equipment, net	16.4	13.8
Game software development, net	13.5	6.3
Goodwill	530.7	530.7
Other intangible assets, net	238.8	271.7
Other assets	24.0	0.8
Long-term assets of discontinued operations held for sale	823.4	823.3
Total assets	\$ 892.5	\$ 894.1
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 5.5	\$ 3.7
Accrued expense	35.0	26.9
Deferred revenue	85.1	81.3
Big Fish Games deferred payment	28.4	27.8
Big Fish Games earnout liability	34.2	67.9
Current liabilities of discontinued operations held for sale	188.2	207.6
Deferred income taxes	47.6	90.0
Other liabilities	7.2	2.3
Non-current liabilities of discontinued operations held for sale	54.8	92.3
Total liabilities	\$ 243.0	\$ 299.9

**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 Award was established on the date of the announcement of the Big Fish Transaction. The expense will be 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 (loss) 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 \$11.1 million in 2017, \$5.6 million in 2016, and \$1.3 million in 2015. The Company expects to recognize \$3.5 million of remaining stock-based compensation expense related to Big Fish Games in the first quarter of 2018.

### 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	December 31, 2016
Big Fish Games deferred payments	\$ 28.4	\$ 27.8
Big Fish Games earnout liability	34.2	67.9
Total	\$ 62.6	\$ 95.7

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, 2016	\$ 27.8	\$ 67.9	\$ 95.7
Payments	—	(34.2)	(34.2)
Change in fair value	0.6	0.5	1.1
Balance as of December 31, 2017	\$ 28.4	\$ 34.2	\$ 62.6

On March 27, 2017, the Company amended the Agreement and Plan of Merger associated with the Company's acquisition of Big Fish Games dated as of December 16, 2014, 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 values of the Big Fish Games deferred payment and earnout liability of \$1.1 million in 2017, \$5.7 million in 2016 and \$21.7 million in 2015 is included in discontinued operations in the accompanying Consolidated Statements of Comprehensive Income.

### 4. ACQUISITION

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 business is immaterial to our business.

### 5. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

<i>(in millions)</i>	As of December 31,	
	2017	2016
Trade receivables	\$ 5.5	\$ 7.0
Derby-related receivables	22.3	27.1
Simulcast and mobile and online wagering receivables	20.5	21.0
Other receivables	4.9	5.0
	53.2	60.1
Allowance for doubtful accounts	(3.6)	(3.5)
Total	\$ 49.6	\$ 56.6

We recognized bad debt expense of \$1.2 million in 2017, \$1.1 million in 2016 and \$0.9 million in 2015.

## 6. PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

<i>(in millions)</i>	As of December 31,	
	2017	2016
Grandstands and buildings	\$ 439.8	\$ 410.5
Equipment	286.7	258.3
Tracks and other improvements	177.9	157.3
Land	131.7	117.5
Furniture and fixtures	60.3	54.4
Construction in progress	23.5	26.7
Artwork	2.2	2.1
	1,122.1	1,026.8
Accumulated depreciation	(514.1)	(466.2)
Total	\$ 608.0	\$ 560.6

Depreciation expense was \$49.1 million in 2017, \$49.1 million in 2016 and \$47.6 million in 2015 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 i-Gaming assets included in our TwinSpires segment. The impairment was due to a change in the Company's planned usage of these assets.

On November 8, 2016, we completed the sale of 61 acres of excess, undeveloped land at Calder 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.

The Company received proceeds from the Calder land sale of \$25.6 million, of which \$14.0 million was placed in a qualified intermediary trust for the purchase of previously identified real property. We utilized the entire escrow amount during 2017, resulting in a zero balance at December 31, 2017, compared to our \$13.6 million receivable from the qualified intermediary trust at December 31, 2016 included in our accompanying Consolidated Balance Sheets.

## 7. CALDER EXIT COSTS

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

Based on our assessment of potential alternative uses of the Calder property, we razed the barns that were not associated with the TSG agreement and commenced the demolition of the grandstand and certain ancillary facilities. The Company recognized Calder exit costs of \$0.8 million in 2017, \$2.5 million in 2016, and \$13.9 million in 2015 in our accompanying Consolidated Statements of Comprehensive Income related to demolition costs for the removal of the grandstand. The Calder exit costs recognized in 2015 included a non-cash impairment charge of \$12.7 million to reduce the net book value of the grandstand assets to zero.

Refer to Note 6, Property and Equipment, for the description of the gain on the Calder land sale of \$23.7 million.

## 8. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

Summarized below is financial information for our equity investments:

<i>(in millions)</i>	December 31,	
	2017	2016
<b>Assets</b>		
Current assets	\$ 64.5	\$ 38.8
Property and equipment, net	234.6	198.0
Other assets, net	236.5	165.0
Total assets	\$ 535.6	\$ 401.8
<b>Liabilities and Members' Equity</b>		
Current liabilities	\$ 100.3	\$ 77.5
Long-term debt	110.1	69.2
Other liabilities	0.1	0.1
Members' equity	325.1	255.0
Total liabilities and members' equity	\$ 535.6	\$ 401.8

<i>(in millions)</i>	Years Ended December 31,		
	2017	2016	2015
Net revenue	\$ 303.3	\$ 216.1	\$ 195.2
Operating and SG&A expense	204.9	142.8	137.2
Depreciation and amortization	25.9	18.5	15.2
<b>Operating income</b>	72.5	54.8	42.8
Interest and other expense, net	(8.5)	(6.9)	(6.2)
<b>Net income</b>	\$ 64.0	\$ 47.9	\$ 36.6

### *Miami Valley Gaming Joint Venture*

We own a 50% interest in MVG, which has a harness racetrack and video lottery terminal ("VLT") gaming facility in Lebanon, Ohio. Delaware North Companies Gaming & Entertainment Inc. ("DNC") owns the remaining 50% interest in this entity.

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 a \$50.0 million secured note payable from MVG payable quarterly over 6 years through August 2019 at a 5.0% interest rate for which it has funded \$33.3 million in principal repayments. We received distributions from MVG of \$17.0 million in 2017, \$15.0 million in 2016 and \$15.0 million in 2015.

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,		
	2017	2016	2015
Equity in income of unconsolidated investments	\$ 16.7	\$ 14.2	\$ 10.6

### *SHRI Equity Investment*

On October 2, 2015, we completed the acquisition of a 25% equity investment in Saratoga Casino Holdings LLC ("SCH") which owns Saratoga Casino and Raceway ("Saratoga's New York facility") in Saratoga Springs, New York, for \$24.5 million from Saratoga Harness Racing, Inc. ("SHRI"). Saratoga's New York facility has a casino with approximately 1,700 VLTs, a 1/2-mile harness racetrack with a racing simulcast center, and three dining facilities. Saratoga's New York facility has a 50% interest in a joint venture with DNC to manage the Gideon Putnam Hotel and Resort. We signed a five-year management agreement with SCH to manage Saratoga's New York facility for which we receive management fee revenue.

On July 6, 2016, Saratoga's New York facility completed a significant expansion which included a 117-room hotel, additional dining facilities and a 3,000 square-foot multi-functional event space.

On November 21, 2016, we completed the acquisition of a 25% equity investment in Saratoga Casino Black Hawk in Black Hawk, Colorado ("Saratoga's Colorado facility") for \$6.5 million from SHRI. Saratoga's Colorado facility has a casino with approximately 600 slot machines, seven table games, three lounges and two dining facilities.

Our investment in SCH recorded under the equity method includes our share of the basis difference between the fair value of property and equipment and definite-lived intangible assets of \$3.7 million and \$2.7 million, respectively. These basis differences are charged to expense over the remaining estimated useful lives of the property and equipment and intangible assets and are recorded as a component of equity in income of unconsolidated investments. Basis differences related to non-depreciable assets, such as land and indefinite lived-intangible assets, are not being amortized.

#### **Ocean Downs**

In August 2016, we signed a limited liability company operating agreement with Saratoga Casino Holdings LLC ("SCH"), with each entity having a 50% interest, and formed Old Bay Gaming and Racing LLC ("Old Bay"). The Old Bay agreement provides both the Company and SCH equal participating rights, and both entities must consent to Old Bay's operating, investing and financing decisions.

On January 3, 2017, Old Bay acquired all of the equity interests of Ocean Enterprise 589 LLC, Ocean Downs LLC and Racing Services LLC (collectively, "Ocean Downs"). The Company's portion of the initial equity investment in Ocean Downs was \$24.0 million. Ocean Downs, located near Ocean City, Maryland, owns and operates VLTs and table games at the Casino at Oceans Downs and conducts harness racing at Ocean Downs Racetrack. The Company's 25% interest in SCH provides an additional 12.5% interest in Ocean Downs, resulting in an effective 62.5% interest in Ocean Downs. Since both the Company and SCH have participating rights and both must consent to Old Bay's operating, investing and financing decisions, the Company accounts for Ocean Downs using the equity method of accounting.

### **9. GOODWILL**

Goodwill is comprised of the following:

<i>(in millions)</i>	<b>Racing</b>	<b>Casino</b>	<b>TwinSpires</b>	<b>Total</b>
Balances as of December 31, 2016	\$ 51.7	\$ 117.7	\$ 132.1	\$ 301.5
Additions	—	—	16.1	16.1
Balances as of December 31, 2017	<u>\$ 51.7</u>	<u>\$ 117.7</u>	<u>\$ 148.2</u>	<u>\$ 317.6</u>

In 2017, we established goodwill of \$16.1 million related to the BetAmerica acquisition. There were no changes to goodwill from December 31, 2015 to December 31, 2016.

We performed our annual goodwill and indefinite-lived intangible impairment analysis as of March 31, 2017 and again as of April 1, 2017, and no adjustment to the carrying value of goodwill or indefinite-lived intangible assets was required. We assessed goodwill 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.

## 10. OTHER INTANGIBLE ASSETS

Other intangible assets are comprised of the following:

<i>(in millions)</i>	December 31, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Definite-lived intangible assets:</b>						
Customer relationships	\$ 16.7	\$ (10.6)	\$ 6.1	\$ 27.1	\$ (22.4)	\$ 4.7
Favorable contracts	11.0	(6.8)	4.2	11.0	(6.2)	4.8
Other	7.1	(1.5)	5.6	3.7	(1.0)	2.7
Table games license	2.7	(0.6)	2.1	2.7	(0.4)	2.3
Slots gaming license	2.3	(1.1)	1.2	2.3	(1.1)	1.2
	<u>\$ 39.8</u>	<u>\$ (20.6)</u>	<u>\$ 19.2</u>	<u>\$ 46.8</u>	<u>\$ (31.1)</u>	<u>\$ 15.7</u>
<b>Indefinite-lived intangible assets:</b>						
Trademarks			21.2			25.7
Slots gaming rights			128.9			128.9
Illinois Horseracing Equity Trust			—			3.3
Other			0.1			0.4
Total			<u>\$ 169.4</u>			<u>\$ 174.0</u>

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 \$6.8 million in 2017, \$9.4 million in 2016 and \$10.5 million in 2015 and is classified in operating expense. We submitted payments of \$2.3 million for 2017 and 2016 for annual license fees for Calder Casino, which are being amortized to expense over the annual license period.

Indefinite-lived intangible assets consist primarily of trademarks and state gaming licenses in Maine, Mississippi and Louisiana.

We performed our annual indefinite-lived intangible asset impairment analysis for 2017 which included an assessment of qualitative and quantitative factors to determine whether it is more likely than not that the fair values of the indefinite-lived intangible assets are less than the carrying amounts.

During the fourth quarter of 2017, the Company recorded a \$4.7 million non-cash impairment charge related to our Bluff acquisition (\$4.5 million for a trademark and \$0.2 million related to customer relationships), which is included in our TwinSpires 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):

Years Ended December 31,	Estimated Amortization Expense
2018	\$ 4.8
2019	2.1
2020	1.9
2021	1.8
2022	1.8

Future estimated amortization expense does not include additional payments of \$2.3 million in 2018 and in each year thereafter for the ongoing amortization of future expected annual Florida slots gaming license fees not yet incurred or paid.

## 11. INCOME TAXES

Components of the provision for income taxes are as follows:

<i>(in millions)</i>	Years Ended December 31,		
	2017	2016	2015
Current provision:			
Federal	\$ 29.5	\$ 33.6	\$ 33.3
State and local	3.0	3.3	3.2
	32.5	36.9	36.5
Deferred (benefit) provision:			
Federal	(53.0)	12.7	6.0
State and local	0.8	1.1	2.1
Foreign	(0.2)	—	—
	(52.4)	13.8	8.1
	\$ (19.9)	\$ 50.7	\$ 44.6

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

<i>(in millions)</i>	Years Ended December 31,		
	2017	2016	2015
Domestic	\$ 102.2	\$ 146.4	\$ 114.1
Foreign	0.3	1.0	1.3
	\$ 102.5	\$ 147.4	\$ 115.4

Our income tax (benefit) 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,		
	2017	2016	2015
Federal statutory tax on earnings before income taxes	\$ 35.9	\$ 51.6	\$ 40.4
State income taxes, net of federal income tax benefit	2.5	4.0	2.0
Non-deductible officer's compensation	4.7	2.3	2.0
Change in enacted tax rates	(57.7)	0.1	0.7
Windfall deduction from equity compensation	(5.2)	(4.9)	—
Other	(0.1)	(2.4)	(0.5)
	\$ (19.9)	\$ 50.7	\$ 44.6

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act significantly revises 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. As a result of the Tax Act, the Company's deferred tax assets and liabilities have been re-measured at December 22, 2017, using the maximum U.S. federal tax rate of 21%. The impact of this balance sheet re-measurement was \$56.9 million of future tax benefits recognized by the Company in the fourth quarter of 2017. In addition to the future tax benefit recognized by the Company due to the reduced federal tax rate, the Company recognized \$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.

Churchill Downs Incorporated  
Notes to Consolidated Financial Statements

In accordance with Staff Accounting Bulletin No. 118 ("SAB 118"), the Company has made estimates for certain provisions of the Tax Act which are considered to be incomplete. The accounting for these estimates will be finalized during a one-year measurement period following the enactment of the Tax Act. The following is a list of sections of the Tax Act for which we have made an estimate:

- We have estimated the impact of non-deductible officer's compensation and recognized provisional tax expense of \$4.7 million. This estimate considers certain performance compensation plans to be tax-deductible due to their establishment before enactment of the Tax Act. We are continuing our consideration of the new rules and any additional information that needs to be acquired for this section of the Tax Act.
- We have made a reasonable estimate of tax depreciation, providing a \$19.7 million provisional tax benefit which includes the accelerated cost recovery allowance granted by the Tax Act effective September 27, 2017. However, our inventory of capital expenditures requires further analysis to finalize the deductibility allowed by the Tax Act.
- We have made a reasonable estimate of the tax consequences of mandatory deemed repatriation required by the Tax Act and recorded provisional tax expense of \$0.9 million. We are continuing to evaluate certain applications related to this section of the Tax Act and the application of ASC 740.
- We have re-measured our deferred taxes as of December 22, 2017 at a reduced corporate tax rate of 21% and recognized a provisional future tax benefit of \$56.9 million. While we are able to make a reasonable estimate of this impact, it may be affected by other elements of the Tax Act including, but not limited to capital expensing and non-deductible officer's compensation.

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

<i>(in millions)</i>	As of December 31,	
	2017	2016
Deferred tax assets:		
Deferred compensation plans	\$ 6.5	\$ 10.7
Deferred income	4.7	4.3
Allowance for uncollectible receivables	0.8	1.2
Deferred liabilities	2.1	3.0
Net operating losses and credit carryforward	5.1	8.1
Deferred tax assets	19.2	27.3
Valuation allowance	(0.2)	(0.4)
Net deferred tax asset	19.0	26.9
Deferred tax liabilities:		
Intangible assets in excess of tax basis	29.2	41.2
Property and equipment in excess of tax basis	22.4	34.8
Equity investments in excess of tax basis	6.8	11.1
Other	1.2	3.0
Deferred tax liabilities	59.6	90.1
Net deferred tax liability	\$ (40.6)	\$ (63.2)

As of December 31, 2017, we have federal net operating loss carryforwards of \$9.6 million which were acquired in conjunction with the acquisition of Youbet.com. The utilization of these losses, which expire between 2023 and 2030, 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 \$2.1 million of state net operating losses, \$0.5 million of which was acquired in conjunction with the acquisitions of Youbet.com. These losses, which expire between 2028 and 2030, may be subject to annual limitations similar to IRC § 382. 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 2014 and after are open to examination. State and local tax years open for examination vary by jurisdiction.

As of December 31, 2017, we had approximately \$2.9 million of total gross unrecognized tax benefits. If the total gross unrecognized tax benefits were recognized, there would be a \$2.8 million effect to the annual effective tax rate. We anticipate a

decrease in our unrecognized tax positions of approximately \$0.2 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>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Balance as of January 1	\$ 2.3	\$ 1.8	\$ 1.5
Additions for tax positions related to the current year	0.5	0.5	0.3
Additions for tax positions of prior years	0.3	0.1	0.2
Reductions for tax positions of prior years	(0.2)	(0.1)	(0.2)
Balance as of December 31	<u>\$ 2.9</u>	<u>\$ 2.3</u>	<u>\$ 1.8</u>

## 12. SHAREHOLDERS' EQUITY

### *Stock Repurchase Program*

On October 28, 2015, our Board of Directors authorized the repurchase of up to \$150.0 million of our stock in a stock repurchase program. This amount included and was not in addition to any unspent amounts remaining under the prior authorization which would have expired at the end of 2015. 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 had no time limit and may be suspended for periods or discontinued at any time.

On November 19, 2015, we repurchased approximately 945,000 common shares for \$138.1 million in a privately negotiated transaction with a related party, The Duchossois Group ("TDG"), our largest shareholder. The aggregate purchase price for the transaction was based on a share price of \$146.13, which was the average of the twenty-day trailing closing price for our common stock through November 18, 2015.

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 new program replaced the prior \$150.0 million plan which was in effect at December 31, 2015 and had unused authorization of \$11.9 million. During 2016, we repurchased 211,790 shares of our common stock in conjunction with our 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 new program replaced the prior \$150.0 million program that was authorized in February 2016 and had unused authorization of \$114.6 million. The new authorized amount included and was not in addition to any unspent amount remaining under the prior authorization in February 2016. 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. Share repurchases result in the shares being retired, and the cost of the shares acquired are treated as a reduction from common stock and retained earnings. The repurchase program has no time limit and may be suspended or discontinued at any time.

On June 9, 2017, we entered into an agreement with an affiliate of TDG to repurchase 1,000,000 shares of the Company's common stock for \$158.78 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 1,000,000 shares from TDG, we have repurchased 1,077,029 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 approved up to \$500.0 million of share repurchases from the proceeds of the Big Fish Transaction. This amount is in addition to any unspent amounts remaining under the prior authorization which was in effect at April 25, 2017. Refer to Note 23, Subsequent Events, for additional information.

### *Shareholder Rights Plan*

On March 13, 2008, our Board of Directors approved a shareholder rights plan which expires on March 13, 2018 and granted each shareholder the right, in certain circumstances, to purchase a fraction of a share of Series A Junior Participating Preferred Stock at the rate of one right for each share of our common stock. If a person or group, together with its affiliates and associates, become an acquiring person, defined as the beneficial owner of 15% or more of our common stock, each holder of a right (other than the person or group who has become an acquiring person) will have the right to receive, upon exercise, shares of our common stock having a value equal to two times the exercise price of the right. Certain persons and transactions are exempted from the definition of acquiring person. In the event that, at any time following the date such person or group becomes an acquiring person, (i) we

engage in a merger or other business combination transaction in which we are not the surviving corporation (other than with an entity that acquired the shares pursuant to an offer for all outstanding shares of common stock that a majority of the independent directors determines to be fair and not inadequate and to otherwise be in the best interests of us and our shareholders, after receiving advice from one or more investment banking firms (a "Qualifying Offer") ), (ii) we engage in a merger or other business combination transaction (other than with an entity that acquired the shares pursuant to a Qualifying Offer) in which we are the surviving corporation and our common stock is changed or exchanged, or (iii) 50% or more of our assets, cash flow or earnings power is sold or transferred, each holder of a right (other than the person or group who has become an acquiring person) shall thereafter have the right to receive, upon exercise, common stock of the surviving entity having a value equal to two times the exercise price of the right. At any time after a person or group becomes an acquiring person, and prior to the acquisition by such person or group of fifty percent (50%) or more of the outstanding common stock, the Board of Directors may exchange the rights (other than rights owned by such acquiring person), in whole or in part, for common stock at an exchange ratio of one share of common stock, or one one-thousandth of a share of preferred stock (or of a share of a class or series of our preferred stock having equivalent rights, preferences and privileges), per right (subject to adjustment).

### **13. 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 approximately \$2.7 million in 2017, \$2.5 million in 2016, and \$2.5 million in 2015.

We are a member of a noncontributory defined benefit multi-employer retirement plan for all members of the Pari-mutuel Clerk's Union of Kentucky and several other collectively bargained retirement plans, which are administered by unions. Cash contributions are made in accordance with negotiated labor contracts. Retirement plan expense was \$0.6 million in 2017, 2016 and 2015. 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.

## 14. TOTAL DEBT

The following table presents our total debt outstanding:

<i>(in millions)</i>	As of December 31, 2017			
	Outstanding Principal	Unamortized Premium, Debt Issuance Costs and Loan Origination Fees		Long-Term Debt, Net
		Premium	Issuance Costs and Fees	
2017 Credit Agreement:				
Term Loan B due 2024	\$ 400.0	\$ —	\$ 5.1	\$ 394.9
Revolving Credit Facility	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

<i>(in millions)</i>	As of December 31, 2016			
	Outstanding Principal	Unamortized Premium, Debt Issuance Costs and Loan Origination Fees		Long-Term Debt, Net
		Premium	Issuance Costs and Fees	
2014 Credit Agreement:				
Senior Secured Credit Facility due 2021	\$ 135.0	\$ —	\$ —	\$ 135.0
Term Loan A due 2021	179.3	—	0.5	178.8
Swing line of credit	13.2	—	—	13.2
Total 2014 Credit Agreement	327.5	—	0.5	327.0
2021 Senior Notes	600.0	2.5	7.8	594.7
Total debt	927.5	2.5	8.3	921.7
Current maturities of long-term debt	14.2	—	—	14.2
Total debt, net of current maturities	\$ 913.3	\$ 2.5	\$ 8.3	\$ 907.5

### 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 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. The 2017 Credit Agreement is collateralized by substantially all assets of the Company.

The Revolver bears interest at LIBOR plus a spread as determined by the Company's net leverage ratio, which was LIBOR plus 175 points at December 31, 2017. 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 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 maintenance of a minimum consolidated interest coverage ratio of 2.5 to 1.0. The Company was in compliance with all applicable covenants in the 2017 Credit Agreement at December 31, 2017.

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, 2017, the Company's commitment fee rate was 0.25%.

Upon closing of the Big Fish Transaction on January 9, 2018, the Company used a portion of the proceeds to pay down the \$242.0 million balance as of December 31, 2017 on the Revolver.

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 will be amortized as interest expense over the respective debt period, or 7 years. The Company also capitalized \$1.6 million of debt issuance costs associated with the Revolver which will be amortized as interest expense over 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 15<sup>th</sup> and July 15<sup>th</sup> of each year, commencing on July 15, 2018. The Company used the net proceeds from the offering to repay a portion of our \$600.0 million 5.375% Senior Unsecured Notes. In connection with the offering, we capitalized \$7.7 million of debt issuance costs which are being amortized as interest expense over the term of the 2028 Senior Notes.

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

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

#### **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 15<sup>th</sup> and December 15<sup>th</sup> 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.

Future aggregate maturities of total debt are as follows (in millions):

<b>Years Ended December 31,</b>		
2018	\$	4.0
2019		4.0
2020		4.0
2021		4.0
2022		246.0
Thereafter		880.0
Total	\$	1,142.0

## 15. OPERATING LEASES

Future minimum operating lease payments on non-cancelable leases are as follows, not including the variable portion of contingent leases (in millions):

<b>Years Ended December 31,</b>		
2018	\$	5.2
2019		4.3
2020		3.8
2021		3.4
2022		1.9
Thereafter		3.2
Total	\$	21.8

We also lease totalisator equipment, audio/visual equipment and operate certain facilities that are partially contingent on handle revenue, bandwidth usage or race days. Total annual rent expense for contingent lease payments, including totalisator equipment, audio/visual equipment, land and facilities, was approximately \$3.6 million in 2017, \$3.4 million in 2016 and \$3.5 million in 2015. Our total rent expense for all operating leases, including the contingent lease payments, was \$18.3 million in 2017, \$18.9 million in 2016, and \$19.7 million in 2015.

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.

## 16. STOCK-BASED COMPENSATION PLANS

On December 31, 2017, 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 \$16.0 million in 2017, \$13.3 million in 2016, and \$12.5 million in 2015. The income tax benefit related to stock-based employee compensation expense was \$5.5 million in 2017, \$4.9 million in 2016, and \$4.5 million in 2015.

### *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. During 2017, we granted stock awards under the 2016 Incentive Plan.

**Restricted Stock, Restricted Stock Units, and Performance Share Units**

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

On September 22, 2015, the Board of Directors approved the adoption of the Executive Long-Term Incentive Compensation Plan (the "ELTI Plan"), pursuant to which certain named executive officers ("NEOs") and other key executives may earn variable equity payouts based upon us achieving certain key performance metrics over a specified period. The ELTI Plan was adopted pursuant to the 2016 and 2007 Plans, which were previously approved by our shareholders.

The vesting criteria for the PSU awards granted in 2015, 2016, and 2017 were based on a three year performance and service period. The two performance criteria were a cumulative Adjusted EBITDA target that was set at the beginning of the plan performance period for the entire three year period, and 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 plus distributions of capital from equity investments less capital maintenance expenditures. The Compensation Committee can make adjustments as it may deem appropriate to these metrics. Measurement against these criteria will be determined against a payout curve which provides up to 200% of performance share units based on the original award.

The PSU awards also include a market condition related to relative total shareholder return ("TSR"). Our TSR will be ranked versus the companies in the Russell 2000 index and will be calculated based on our relative placement within the Russell 2000 index. The PSU awards may 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. Once applying any TSR adjustment, the maximum number of PSUs that can be earned for a performance period is 250% of the original award.

The total compensation cost we will recognize under the PSUs will be determined using the Monte Carlo valuation methodology, which factors in the value of the TSR market condition when determining the grant date fair value of the PSU. Compensation cost for each PSU is recognized during the performance and service period based on the probable achievement of the two performance criteria. The PSUs are converted into shares of our common stock at the time the PSU award value is finalized.

A summary of the RSUs and PSUs granted to certain NEOs is presented below (units in thousands):

Grant Year	Award Type	Number of Units Awarded <sup>(1)</sup>	Vesting Terms
2015	RSU	23	Majority vest equally over two service periods ending December 31 of 2016 and 2017
2015	PSU	17	Three year performance and service period ending December 31, 2017
2016	RSU	20	Vest equally over three service periods ending December 31 of 2016, 2017, and 2018
2016	PSU	20	Three year performance and service period ending December 31, 2018
2017	RSU	22	Vest equally over three service periods ending December 31 of 2017, 2018, and 2019
2017	PSU	21	Three year performance and service period ending December 31, 2019

(1) PSUs presented are based on the target number of units for the original PSU grant. If both performance criteria do not achieve a minimum of 85% of their respective targets, no units will be awarded for the PSU grant.

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

Grant Year	Award Type	Number of Shares/Units Awarded	Vesting Terms
2015	RSA	137	Vest over service periods ranging from seven months to three years
2015	RSU	6	Vest over service period ending in April 2016
2016	RSA	35	Majority vest equally over three service periods ending in January of 2017, 2018, and 2019
2016	RSU	8	Vest over service period ending in April 2017
2017	RSA	29	Vest equally over three service periods ending in February of 2018, 2019, and 2020
2017	RSU	6	Vest over service period ending in April 2018

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

	Market Condition & Performance-Based Awards		Service Period Awards		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>						
<b>Balance as of December 31, 2014</b>	85	\$ 54.32	264	\$ 57.07	349	\$ 56.40
Granted	17	\$ 153.01	166	\$ 102.34	183	\$ 107.06
Vested	(85)	\$ 48.31	(157)	\$ 65.89	(242)	\$ 57.24
Canceled/forfeited	—	\$ —	(5)	\$ 91.14	(5)	\$ 91.14
<b>Balance as of December 31, 2015</b>	17	\$ 153.01	268	\$ 71.98	285	\$ 83.71
Granted	20	\$ 141.02	63	\$ 134.04	83	\$ 135.71
Vested	—	\$ —	(167)	\$ 67.61	(167)	\$ 67.61
Canceled/forfeited	—	\$ —	(4)	\$ 88.92	(4)	\$ 88.92
<b>Balance as of December 31, 2016</b>	37	\$ 146.57	160	\$ 110.71	197	\$ 111.69
Granted	21	\$ 167.25	58	\$ 156.92	79	\$ 159.75
Adjustments <sup>(1)</sup>	15	\$ 153.01	—	\$ —	15	\$ 153.01
Vested	(32)	\$ 153.01	(111)	\$ 110.38	(143)	\$ 119.94
Canceled/forfeited	—	\$ —	(1)	\$ 125.75	(1)	\$ 125.75
<b>Balance as of December 31, 2017</b>	41	\$ 154.78	106	\$ 136.54	147	\$ 130.75

(1) Adjustments to number of units awarded for PSUs based on achievement of performance and market conditions.

The fair value of shares and units vested was \$29.6 million in 2017, \$24.3 million in 2016, and \$28.4 million in 2015.

A summary of total unrecognized stock-based compensation expense related to RSAs, RSUs, and PSUs (based on current performance estimates), at December 31, 2017 is presented below:

	December 31, 2017	Weighted Average Remaining Vesting Period (Years)
	<i>(in millions, except years)</i>	
Unrecognized RSA expense	\$ 3.0	1.3
Unrecognized RSU expense	2.0	1.3
Unrecognized PSU expense	3.4	1.7
<b>Total</b>	<b>\$ 8.4</b>	<b>1.5</b>

### 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.

Activity for our stock options is presented below:

*(in thousands, except per average exercise price)*

	Number of Shares Under Option	Weighted Average Exercise Price
<b>Balance as of December 31, 2014</b>	10	\$ 48.63
Granted	—	\$ —
Exercises	(1)	\$ 49.95
Canceled/forfeited	—	\$ —
<b>Balance as of December 31, 2015</b>	9	\$ 48.37
Granted	—	\$ —
Exercises	(5)	\$ 52.58
Canceled/forfeited	—	\$ —
<b>Balance as of December 31, 2016</b>	4	\$ 43.74
Granted	—	\$ —
Exercises	(4)	\$ 43.74
Canceled/forfeited	—	\$ —
<b>Balance as of December 31, 2017</b>	—	\$ —

The total intrinsic value of stock options exercised was \$0.5 million in 2017, \$0.4 million in 2016, and \$0.1 million in 2015. Cash received from stock option exercises totaled \$0.2 million in 2017, \$0.2 million in 2016, and \$0.1 million in 2015.

### 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.

## 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 3, Discontinued Operations, for disclosures relating to our liabilities held for sale. The following tables present our assets measured at fair value on a recurring basis:

	Level 1	
	December 31, 2017	December 31, 2016
<i>(in millions)</i>		
Cash equivalents and restricted cash	\$ 31.2	\$ 34.3

Our cash equivalents and restricted cash 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.

The Company previously accrued for a contingent consideration liability in conjunction with the Bluff acquisition that was based on significant inputs not observed in the market and represent a Level 3 fair value measurement. The estimate of the contingent consideration liability used an income approach and was based on the probability of achieving enabling legislation which permits Internet poker gaming and the probability-weighted discounted cash flows. During the fourth quarter of 2016, the Company eliminated the contingent liability as the legislation did not pass and thus the contingency period expired in February 2017. Therefore, the Company recorded a \$2.3 million reduction of the liability which was included in other, net, in the accompanying Consolidated Statements of Comprehensive Income in 2016.

We currently have no other assets or liabilities subject to fair value measurement on a recurring basis. Our \$500.0 million par value 2028 Senior Notes are disclosed at fair value which is based on unadjusted quoted prices for similar liabilities in markets that are not active. The fair value of the 2028 Senior Notes was \$496.8 million at December 31, 2017.

The following methods and assumptions were used in estimating our fair value disclosures for financial instruments:

Cash equivalents - the carrying amount reported in the balance sheet for cash equivalents approximates our fair value due to the short-term maturity of these instruments.

Long-term debt: 2017 Credit Agreement and 2014 Credit Agreement—The carrying amounts of the borrowings under our 2017 Credit Agreement and 2014 Credit Agreement approximate fair value, based upon current interest rates, representing a Level 2 fair value measurement.

We did not measure any assets at fair value on a non-recurring basis for 2017 and 2016.

## 18. CONTINGENCIES

We are involved in litigation arising in the ordinary course of conducting business. We carry insurance for workers' compensation claims from our employees and general liability for claims from independent contractors, customers and guests. We are self-insured up to an aggregate stop loss for our general liability and workers' compensation coverages.

We review all litigation on an ongoing basis when making accrual and disclosure decisions. For certain legal proceedings, we cannot reasonably estimate losses or a range of loss, if any, particularly for proceedings that are in the early stages of development or where the plaintiffs seek indeterminate damages. Various factors, including, but not limited to, the outcome of potentially lengthy discovery and the resolution of important factual questions, may need to be determined before probability can be established or before a loss or range of loss can be reasonably estimated. In accordance with current accounting standards for loss contingencies and based upon information currently known to us, we establish reserves for litigation when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss or range of loss can be reasonably estimated. When no amount within the range of loss is a better estimate than any other amount, we accrue the minimum amount of the estimable loss. To the extent that such litigation against us may have an exposure to a loss in excess of the amount we have accrued, we believe that such excess would not be material to our consolidated financial condition, results of operations, or cash flows. Legal fees are expensed as incurred.

If the loss contingency in question is not both probable and reasonably estimable, we do not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably 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:

<i>(in millions, except per share data)</i>	Years Ended December 31,		
	2017	2016	2015
Numerator for basic net income per common share:			
Net income from continuing operations	\$ 122.4	\$ 96.7	\$ 70.8
Net income from continuing operations allocated to participating securities	(0.1)	(1.0)	(0.6)
Net income from discontinued operations	18.1	11.4	(5.6)
Numerator for basic net income per common share	\$ 140.4	\$ 107.1	\$ 64.6
Numerator for diluted net income from continuing operations per common share	\$ 122.4	\$ 96.7	\$ 70.8
Numerator for diluted net income per common share	\$ 140.5	\$ 108.1	\$ 65.2
Denominator for net income per common share:			
Basic	15.7	16.4	17.2
Plus dilutive effect of stock awards	0.2	0.2	0.1
Plus dilutive effect of participating securities	0.1	0.2	0.3
Diluted	16.0	16.8	17.6
Net income (loss) per common share data:			
Basic			
Continuing operations	\$ 7.76	\$ 5.83	\$ 4.08
Discontinued operations	\$ 1.15	\$ 0.69	\$ (0.33)
Net income per common share - basic	\$ 8.91	\$ 6.52	\$ 3.75
Diluted			
Continuing operations	\$ 7.64	\$ 5.74	\$ 4.03
Discontinued operations	\$ 1.13	\$ 0.68	\$ (0.32)
Net income per common share - diluted	\$ 8.77	\$ 6.42	\$ 3.71

## 20. SEGMENT INFORMATION

We manage our operations through six operating segments, all of which are included in continuing operations with the exception of Big Fish Games:

- Racing, which includes Churchill Downs, Arlington International Race Course ("Arlington"), Fair Grounds Race Course ("Fair Grounds") and Calder;
- Casino, which includes Oxford Casino ("Oxford"), Riverwalk Casino ("Riverwalk"), Harlow's Casino ("Harlow's"), Calder Casino, Fair Grounds Slots, Video Services, LLC ("VSI"), 50% of EBITDA from our joint venture, MVG, an effective 62.5% of EBITDA from our equity investment in Ocean Downs and 25% of EBITDA from our equity investment in SCH.
- TwinSpires, which includes TwinSpires.com, Fair Grounds Account Wagering, Velocity, BetAmerica, and Bloodstock Research Information Services;
- Other Investments, which includes United Tote and other minor investments;
- Corporate, which includes miscellaneous and other revenue, compensation expense, professional fees and other general and administrative expense not allocated to our other operating segments; and

- Big Fish Games is a global producer and distributor of social casino, casual and mid-core free-to-play and premium paid games for PC, Mac and mobile devices. Big Fish Games is headquartered in Seattle, Washington and has a studio location in Oakland, California, with approximately 700 employees. On November 29, 2017, we entered into a definitive stock purchase agreement to sell Big Fish Games to the Purchaser in the Big Fish Transaction. On January 9, 2018, we closed the Big Fish Transaction, at which time Big Fish Games ceased to be an operating segment.

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; and
  - Other transaction expense, including legal, accounting and other deal-related expense;
- Stock-based compensation expense;
- Asset impairments;
- Gain on Calder land sale;
- Calder exit costs;
- Loss on extinguishment of debt; 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 TwinSpires 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. We have included Big Fish Games Adjusted EBITDA information as applicable within this Note due to the fact that Big Fish Games was an operating segment as of December 31, 2017.

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,		
	2017	2016	2015
<b>Net revenue from external customers:</b>			
Racing:			
Churchill Downs	\$ 161.3	\$ 155.2	\$ 151.1
Arlington	57.2	55.3	54.4
Fair Grounds	36.3	38.0	39.8
Calder	2.5	2.6	2.7
Total Racing	257.3	251.1	248.0
Casino:			
Oxford Casino	90.8	84.6	80.4
Riverwalk Casino	48.2	46.1	49.8
Harlow's Casino	50.0	48.4	49.0
Calder Casino	85.4	79.1	77.4
Fair Grounds Slots	36.5	36.9	39.0
VSI	38.3	36.9	36.9
Saratoga	1.3	0.8	0.4
Total Casino	350.5	332.8	332.9
TwinSpires	255.6	221.6	201.1
Other Investments	19.2	16.9	16.6
Corporate	—	—	—
Net revenue from external customers	\$ 882.6	\$ 822.4	\$ 798.6
<b>Intercompany net revenue:</b>			
Racing:			
Churchill Downs	\$ 11.4	\$ 10.0	\$ 7.8
Arlington	6.3	5.5	5.1
Fair Grounds	1.6	1.5	1.3
Calder	—	—	—
Total Racing	19.3	17.0	14.2
TwinSpires	1.1	1.3	1.1
Other Investments	4.5	3.9	3.5
Eliminations	(24.9)	(22.2)	(18.8)
Intercompany net revenue	\$ —	\$ —	\$ —

Churchill Downs Incorporated  
Notes to Consolidated Financial Statements

Adjusted EBITDA by segment is comprised of the following:

<b>Year Ended December 31, 2017</b>						
<i>(in millions)</i>	<b>Continuing Operations</b>					<b>Discontinued Operations</b>
	<b>Racing</b>	<b>Casino</b>	<b>TwinSpires</b>	<b>Other Investments</b>	<b>Corporate<sup>(a)</sup></b>	<b>Big Fish Games</b>
Net revenue	\$ 276.6	\$ 350.5	\$ 256.7	\$ 23.7	\$ —	\$ 466.0
Taxes & purses	(65.4)	(117.0)	(14.7)	—	—	—
Platform & development fees	—	—	—	—	—	(167.8)
Marketing & advertising	(4.9)	(12.1)	(8.2)	—	—	(116.6)
Salaries & benefits	(41.7)	(53.2)	(9.9)	(12.0)	—	(27.8)
Content expense	(15.2)	—	(125.0)	—	—	—
SG&A expense	(16.8)	(22.6)	(12.4)	(3.3)	(12.2)	(16.6)
Research & development	—	—	—	—	—	(39.6)
Other operating expense	(48.9)	(41.6)	(22.1)	(5.1)	(0.5)	(15.6)
Other income	0.8	42.0	—	0.4	0.3	(1.7)
Adjusted EBITDA	<u>\$ 84.5</u>	<u>\$ 146.0</u>	<u>\$ 64.4</u>	<u>\$ 3.7</u>	<u>\$ (12.4)</u>	<u>\$ 80.3</u>

<b>Year Ended December 31, 2016</b>						
<i>(in millions)</i>	<b>Continuing Operations</b>					<b>Discontinued Operations</b>
	<b>Racing</b>	<b>Casino</b>	<b>TwinSpires</b>	<b>Other Investments</b>	<b>Corporate<sup>(a)</sup></b>	<b>Big Fish Games</b>
Net revenue	\$ 268.1	\$ 332.8	\$ 222.9	\$ 20.8	\$ —	\$ 486.2
Taxes & purses	(64.2)	(110.9)	(11.6)	—	—	—
Platform & development fees	—	—	—	—	—	(179.9)
Marketing & advertising	(4.6)	(12.7)	(6.3)	—	—	(127.9)
Salaries & benefits	(40.9)	(50.8)	(9.4)	(10.9)	—	(25.0)
Content expense	(15.6)	—	(107.6)	—	—	—
SG&A expense	(16.2)	(21.2)	(12.0)	(3.4)	(11.7)	(15.4)
Research & development	—	—	—	—	—	(39.0)
Other operating expense	(47.4)	(39.1)	(19.8)	(4.1)	(0.6)	(15.9)
Other income	0.5	27.7	—	0.3	0.2	(0.9)
Adjusted EBITDA	<u>\$ 79.7</u>	<u>\$ 125.8</u>	<u>\$ 56.2</u>	<u>\$ 2.7</u>	<u>\$ (12.1)</u>	<u>\$ 82.2</u>

<b>Year Ended December 31, 2015</b>						
<i>(in millions)</i>	<b>Continuing Operations</b>					<b>Discontinued Operations</b>
	<b>Racing</b>	<b>Casino</b>	<b>TwinSpires</b>	<b>Other Investments</b>	<b>Corporate<sup>(a)</sup></b>	<b>Big Fish Games</b>
Net revenue	\$ 262.2	\$ 332.9	\$ 202.2	\$ 20.1	\$ —	\$ 413.7
Taxes & purses	(63.6)	(109.9)	(10.6)	—	—	—
Platform & development fees	—	—	—	—	—	(143.6)
Marketing & advertising	(6.1)	(12.4)	(4.8)	—	—	(107.7)
Salaries & benefits	(39.2)	(49.7)	(9.9)	(11.1)	—	(22.3)
Content expense	(14.6)	—	(97.9)	—	—	—
SG&A expense	(16.6)	(24.1)	(11.5)	(2.5)	(9.3)	(13.8)
Research & development	—	—	—	—	—	(39.4)
Other operating expense	(50.9)	(41.3)	(18.0)	(3.8)	1.1	(14.8)
Other income	0.6	19.4	—	0.2	0.1	(0.6)
Adjusted EBITDA	<u>\$ 71.8</u>	<u>\$ 114.9</u>	<u>\$ 49.5</u>	<u>\$ 2.9</u>	<u>\$ (8.1)</u>	<u>\$ 71.5</u>

(a) The Corporate segment includes corporate and other certain expenses of \$3.6 million in 2017, \$3.1 million in 2016 and \$3.0 million in 2015 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.



<i>(in millions)</i>	<b>Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Reconciliation of Comprehensive Income to Adjusted EBITDA:</b>			
<b>Comprehensive income</b>	\$ 140.4	\$ 107.5	\$ 64.7
Foreign currency translation, net of tax	0.1	(0.2)	0.5
Net change in pension benefits, net of tax	—	0.8	—
<b>Net income</b>	<u>140.5</u>	<u>108.1</u>	<u>65.2</u>
Additions - continuing operations:			
Depreciation and amortization	56.0	58.4	58.0
Interest expense	49.3	43.7	28.6
Loss on extinguishment of debt	20.7	—	—
Income tax (benefit) provision	(19.9)	50.7	44.6
Additions - discontinued operations:			
Depreciation and amortization	41.1	50.2	51.7
Income tax provision	5.1	9.3	2.3
<b>EBITDA</b>	<u>\$ 292.8</u>	<u>\$ 320.4</u>	<u>\$ 250.4</u>
Adjustments to EBITDA - continuing operations:			
Selling, general and administrative:			
Stock-based compensation expense	16.0	13.3	12.5
Other charges	1.2	2.5	—
Other income, expense:			
Interest, depreciation and amortization expense related to equity investments	16.7	10.0	8.5
Other charges and recoveries, net	—	0.5	(5.8)
Impairment of tangible and other intangible assets	21.7	—	—
Gain on Calder land sale	—	(23.7)	—
Calder exit costs	0.8	2.5	13.9
Other, net	1.5	(2.4)	—
Adjustments to EBITDA - discontinued operations:			
Stock-based compensation expense	11.1	5.6	1.3
Transaction expense, net	4.7	5.8	21.7
<b>Total adjustments to EBITDA</b>	<u>73.7</u>	<u>14.1</u>	<u>52.1</u>
<b>Adjusted EBITDA</b>	<u>\$ 366.5</u>	<u>\$ 334.5</u>	<u>\$ 302.5</u>
Adjusted EBITDA by segment:			
Racing	\$ 84.5	\$ 79.7	\$ 71.8
Casino	146.0	125.8	114.9
TwinSpires	64.4	56.2	49.5
Other Investments	3.7	2.7	2.9
Corporate <sup>(a)</sup>	(12.4)	(12.1)	(8.1)
Big Fish Games	80.3	82.2	71.5
<b>Adjusted EBITDA</b>	<u>\$ 366.5</u>	<u>\$ 334.5</u>	<u>\$ 302.5</u>

(a) The Corporate segment includes corporate and other certain expenses of \$3.6 million in 2017, \$3.1 million in 2016 and \$3.0 million in 2015 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>	<b>Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Casino	\$ 25.3	\$ 17.4	\$ 10.9
Other Investments	0.2	—	0.3
	<u>\$ 25.5</u>	<u>\$ 17.4</u>	<u>\$ 11.2</u>

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

<i>(in millions)</i>	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Total assets:</b>		
Racing	\$ 483.0	\$ 454.6
Casino	679.6	628.7
TwinSpires	215.9	209.9
Other Investments	15.2	11.1
Corporate	73.2	56.3
Big Fish Games	892.5	893.8
	<u>\$ 2,359.4</u>	<u>\$ 2,254.4</u>

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

<i>(in millions)</i>	<b>Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Capital expenditures:</b>			
Racing	\$ 57.8	\$ 26.1	\$ 12.3
Casino	37.5	13.9	18.8
TwinSpires	9.0	7.0	4.3
Other Investments	3.4	1.0	0.8
Corporate	1.3	1.2	0.9
Big Fish Games	7.9	5.5	6.4
	<u>\$ 116.9</u>	<u>\$ 54.7</u>	<u>\$ 43.5</u>

## 21. HRTV EQUITY INVESTMENT DIVESTITURE

As part of the TSG agreement related to the cessation of Calder pari-mutuel operations in 2014, we modified our HRTV, LLC ("HRTV") operating and ownership agreement with TSG resulting in the divestiture of our interest in HRTV effective January 2, 2015. In January 2015, we received \$6.0 million in proceeds from the sale of the ownership interest and we recorded a gain of \$5.8 million in our Other Investments segment, which is included in miscellaneous, net in other expense in the accompanying Consolidated Statements of Comprehensive Income. The HRTV gain has been excluded from Adjusted EBITDA and is included in other charges and recoveries, net in the reconciliation of Comprehensive Income to Adjusted EBITDA.

## 22. 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 November 19, 2015, we repurchased approximately 945,000 common shares for \$138.1 million in a privately negotiated transaction with a related party, TDG, our largest shareholder. Additionally, on June 9, 2017, we entered into an agreement with TDG to repurchase 1,000,000 shares of the Company's common stock for \$158.78 per share in a privately negotiated transaction. The aggregate purchase price was \$158.8 million.

Refer to Note 12, Shareholders' Equity, for additional information related to the repurchases.

## 23. SUBSEQUENT EVENTS

### *Modified Dutch Auction*

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 utilizing a portion of the proceeds from the Big Fish Transaction. The Company completed the tender offer on February 12, 2018, and repurchased 1,886,792 shares of the Company's common stock at a purchase price of \$265.00 per share with an aggregate cost of \$500.0 million, excluding fees and expenses related to the tender offer.

### *Acquisitions*

On February 28, 2018, the Company announced it has entered into two separate definitive asset purchase agreements with Eldorado Resorts, Inc. and certain subsidiaries 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, and Lady Luck Casino ("Lady Luck Vicksburg") in Vicksburg, Mississippi for total aggregate consideration of approximately \$229.5 million, to be paid in cash. The transactions are dependent on usual and customary closing conditions, including the Company securing gaming licenses from the Pennsylvania Gaming Control Board and the Mississippi Gaming Commission as well as a racing license from the Pennsylvania State Horse Racing Commission. The Lady Luck Vicksburg transaction is expected to close in the second quarter of 2018. Closing of the Presque Isle purchase, which is conditioned on the closing of the Lady Luck Vicksburg transaction, is expected to close in the fourth quarter of 2018.

## 24. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

(in millions, except per common share data)

	<b>For the Year Ended December 31, 2017</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter<sup>(a)</sup></b>
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 <sup>(c)</sup> :				
Continuing operations	\$ 0.13	\$ 4.52	\$ 0.85	\$ 2.25
Discontinued operations	0.31	0.34	0.24	0.25
Net income per common share - basic	<u>\$ 0.44</u>	<u>\$ 4.86</u>	<u>\$ 1.09</u>	<u>\$ 2.50</u>
Net income per common share - diluted <sup>(c)</sup> :				
Continuing operations	\$ 0.13	\$ 4.47	\$ 0.84	\$ 2.22
Discontinued operations	0.31	0.34	0.24	0.24
Net income per common share - diluted	<u>\$ 0.44</u>	<u>\$ 4.81</u>	<u>\$ 1.08</u>	<u>\$ 2.46</u>

Churchill Downs Incorporated  
Notes to Consolidated Financial Statements

(in millions, except per common share data)

	<b>For the Year Ended December 31, 2016</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter<sup>(b)</sup></b>
Net revenues	\$ 166.3	\$ 313.3	\$ 181.0	\$ 161.8
Operating income	12.5	113.6	14.0	32.4
Income from continuing operations, net of tax	7.1	66.8	3.4	19.4
(Loss) income from discontinued operations, net of tax	(4.3)	3.0	5.3	7.4
Net income (loss) per common share - basic <sup>(c)</sup> :				
Continuing operations	\$ 0.43	\$ 3.97	\$ 0.20	\$ 1.17
Discontinued operations	(0.26)	0.19	0.32	0.45
Net income per common share - basic	\$ 0.17	\$ 4.16	\$ 0.52	\$ 1.62
Net income (loss) per common share - diluted <sup>(c)</sup> :				
Continuing operations	\$ 0.42	\$ 3.93	\$ 0.20	\$ 1.16
Discontinued operations	(0.26)	0.18	0.32	0.44
Net income per common share - diluted	\$ 0.16	\$ 4.11	\$ 0.52	\$ 1.60

(a) 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.

(b) Fourth quarter of 2016 includes a \$23.7 million gain on Calder land sale.

(c) Net income (loss) 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 as of December 31, 2017 and 2016, 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, 2017, 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, 2017, 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, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 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, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***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 28, 2018

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, 2017. 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, 2017.

<u>/s/ William C. Carstanjen</u>	<u>/s/ Marcia A. Dall</u>	<u>/s/ Chad E. Dobson</u>
William C. Carstanjen	Marcia A. Dall	Chad E. Dobson
Chief Executive Officer	Executive Vice President and	Vice President and
February 28, 2018	Chief Financial Officer	Chief Accounting Officer
	February 28, 2018	February 28, 2018

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 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 outside directors, audit committee and Section 16(a) beneficial ownership reporting compliance is incorporated by reference to the definitive proxy statement on Schedule 14(a) to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2017.

We have adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer and principal financial officers. This Code of Ethics is available on our corporate website, [www.churchilldownsincorporated.com](http://www.churchilldownsincorporated.com), under the "Investors" heading and is also available to shareholders upon request.

## Executive Officers of the Registrant

Name	Age as of 2/28/2018	Principal Occupation for the Past Five Years and Position with Churchill Downs Incorporated
William C. Carstanjen	50	Chief Executive Officer since August 2014; President and Chief Operating Officer from March 2011 to August 2014.
William E. Mudd	46	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	54	Executive Vice President and Chief Financial Officer since October 2015; Executive Vice President and Chief Financial Officer of Erie Indemnity Company 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, 2017.

### 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 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, 2017.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item with respect to certain relationships with our outside directors 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, 2017.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required herein is incorporated by reference from the section of our Proxy Statement titled "Independent Public Accountants," pursuant to instruction G(3) of the General Instructions to Form 10-K.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE**

	<b><u>Pages</u></b>
(a) (1) Consolidated Financial Statements	
The following financial statements of Churchill Downs Incorporated for the years ended 2017, 2016 and 2015 are included in Part II, Item 8:	
<u>Consolidated Balance Sheets</u>	<u>55</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>54</u>
<u>Consolidated Statements of Shareholders' Equity</u>	<u>56</u>
<u>Consolidated Statements of Cash Flows</u>	<u>57</u>
<u>Notes to Consolidated Financial Statements</u>	<u>59</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>93</u>
(2) <u>Schedule II—Valuation and Qualifying Accounts</u>	<u>103</u>
All other schedules are omitted because they are not applicable, not significant or not required, or because the required information is included in the consolidated financial statements or notes thereto.	
(3) For the list of required exhibits, see exhibit index.	<u>98</u>
(b) Exhibits	<u>98</u>
<u>See exhibit index.</u>	
(c) All financial statements and schedules except those items listed under Items 15(a)(1) and (2) above are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.	

**EXHIBIT INDEX**

<b><u>Numbers</u></b>	<b><u>Description</u></b>	<b><u>By Reference To</u></b>
2	(a) Agreement and Plan of Merger, dated as of November 12, 2014, by and among Churchill Downs Incorporated, Ocean Acquisition Corp., Big Fish Games, Inc., and the securityholders' agent party thereto	Exhibit 2.1 to Current Report on Form 8-K (Commission file number 001-33998) filed November 13, 2014**
	(b) First Amendment to Agreement and Plan of Merger, dated as of March 27, 2017, by and among Churchill Downs Incorporated, Ocean Acquisition Corp., Big Fish Games, Inc. and the securityholders' agent party thereto	Exhibit 2.1 to Current Report on Form 8-K (Commission file number 001-33998) filed on March 27, 2017
	(c) 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
	(d) 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
	(e) 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 July 3, 2012	Exhibit 3.1 to Current Report on Form 8-K (Commission file number 001-33998) filed July 10, 2012
	(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 16, 2013 by and among Churchill Downs Incorporated, the guarantors named therein, and US Bank National Association	Exhibit 4.1 to Current Report on Form 8-K (Commission file number 001-33998) filed December 17, 2013.
	(c) Registration Rights Agreement dated December 16, 2013 by and among Churchill Downs Incorporated, the guarantors named therein and the representatives of the initial purchasers	Exhibit 4.2 to Current Report on Form 8-K (Commission file number 001-33998) filed December 17, 2013.
	(d) First Supplemental Indenture dated as of December 15, 2015 among Churchill Downs Incorporated, the guarantors party thereto and U.S. Bank National Association, as trustee	Exhibit 4.1 to Current Report on Form 8-K (Commission file number 001-33998) filed December 15, 2015
	(e) Registration Rights Agreement dated as of December 15, 2015 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 15, 2015
	(f) Indenture dated as of December 27, 2017 by and among Churchill Downs Incorporated, the guarantors party thereto and U.S. Bank National Association, as trustee	Exhibit 4.1 to Current Report on Form 8-K (Commission file number 001-33998) filed December 27, 2017
	(g) 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
	(b) Churchill Downs Incorporated 2003 Stock Option Plan*	Exhibit 4(e) to the Registration Statement on Form S-8 (Commission file number 333-106310) filed June 20, 2003

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
(c)	Fourth Amended and Restated Churchill Downs Incorporated 1997 Stock Option Plan*	Exhibit 10(a) to Quarterly Report on Form 10-Q (Commission file number 000-01469) for the fiscal quarter ended June 30, 2002
(d)	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
(e)	Form of Stockholder's Agreement dated September 8, 2000 among Churchill Downs Incorporated and Duchossois Industries, Inc.	Annex C to Schedule 14A (Commission file number 000-01469) filed August 10, 2000
(f)	Lease Agreement between the City of Louisville, Kentucky and Churchill Downs Incorporated dated January 1, 2003	Exhibit 2.1 to Current Report on Form 8-K (Commission file number 000-01469) filed January 6, 2003
(g)	Form of Restricted Stock Agreement*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 000-01469) filed November 30, 2004
(h)	2005 Churchill Downs Incorporated Deferred Compensation Plan, as amended*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 000-01469) filed June 21, 2005
(i)	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
(j)	Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan*	Exhibit A to Schedule 14A (Commission file number 000-01469) filed April 30, 2007
(k)	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
(l)	Amended and Restated Terms and Conditions of Performance Stock Awards Issued Pursuant to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed December 22, 2008
(m)	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
(n)	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
(o)	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
(p)	Form of Churchill Downs Incorporated Restricted Stock Agreement*	Exhibit 10(LL) to Annual Report on Form 10-K (Commission file number 001-33998) for the fiscal year ended December 31, 2011
(q)	Limited Liability Company Agreement of Miami Valley Gaming & Racing, LLC, dated as of March 1, 2012, by and among Miami Valley Gaming & Racing, LLC, Churchill Downs Incorporated, MVGR, LLC, Delaware North Companies Gaming & Entertainment, Inc. and DNC Ohio Gaming, Inc.	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed March 5, 2012
(r)	Asset Purchase Agreement, dated as of March 1, 2012, by and among Miami Valley Gaming & Racing LLC; Lebanon Trotting Club, Inc.; Miami Valley Trotting, Inc.; Keith Nixon Jr. and John Carlo	Exhibit 10.2 to Current Report on Form 8-K (Commission file number 001-33998) filed March 5, 2012
(s)	Churchill Downs Incorporated Executive Annual Incentive Plan*	Exhibit A to Schedule 14A (Commission file number 001-33998) filed May 3, 2012

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
(t)	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
(u)	Form of Executive Change in Control, Severance and Indemnity Agreement dated as of August 27, 2014 by and between Churchill Downs Incorporated and Robert L. Evans, William C. Carstanjen, William E. Mudd, and Alan K. Tse*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed August 28, 2014
(v)	Form of Executive Change in Control, Severance and Indemnity Agreement dated as of February 9, 2015 by and between Churchill Downs Incorporated and Robert L. Evans, William C. Carstanjen, William E. Mudd, and Alan K. Tse*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed February 12, 2015
(w)	Form of Executive Change in Control, Severance and Indemnity Agreement dated as of October 12, 2015 by and between Churchill Downs Incorporated and Marcia A. Dall*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed February 12, 2015
(x)	First Amendment to the Executive Change in Control, Severance and Indemnity Agreement by and between Churchill Downs Incorporated and Robert L. Evans*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed July 14, 2015
(y)	Form of Churchill Downs Incorporated Restricted Stock Unit Agreement*	Exhibit 10.1A to Current Report on Form 8-K (Commission file number 001-33998) filed September 28, 2015
(z)	Form of Churchill Downs Incorporated Performance Share Unit Agreement*	Exhibit 10.1B to Current Report on Form 8-K (Commission file number 001-33998) filed September 28, 2015
(aa)	Stock Repurchase Agreement, dated November 19, 2015, between Churchill Downs Incorporated and the Duchossois Group, Inc.	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed November 19, 2015
(bb)	First Amendment to Stockholder's Agreement, dated November 19, 2015 between Churchill Downs Incorporated and The Duchossois Group, Inc.	Exhibit 10.2 to Current Report on Form 8-K (Commission file number 001-33998) filed November 19, 2015
(cc)	Stock Repurchase Agreement, dated June 9, 2017, 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
(dd)	Amended and Restated Stockholder's Agreement, dated June 9, 2017, 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
(ee)	Amendment and Restatement Agreement dated December 1, 2014 with Fourth Amended and Restated Credit Agreement	Exhibit 4(e) to Annual Report on Form 10-K (Commission file number 001-33998) for the fiscal year ended December 31, 2014
(ff)	Amendment No. 1 to the Fourth Amended and Restated Credit Agreement, dated February 17, 2016	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed February 18, 2016
(gg)	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., as administrative agent and collateral agent and PNC Bank, National Association, as swingline lender	Exhibit 4.3 to Current Report on Form 8-K (Commission file number 001-33998) filed December 27, 2017
(hh)	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
(ii)	Churchill Downs Incorporated 2016 Omnibus Stock Incentive Plan*	Exhibit 10.1 to Current Report on Form 8-K (Commission file number 001-33998) filed April 29, 2016

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
(jj)	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
14	Churchill Downs Incorporated Code of Ethics as of December 31, 2003	Exhibit 14 to Annual Report on Form 10-K (Commission file number 000-01469) for the fiscal year ended December 31, 2003
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

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William C. Carstanjen  
Chief Executive Officer  
(Principal Executive Officer)  
February 28, 2018

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

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William C. Carstanjen  
Chief Executive Officer  
February 28, 2018  
(Principal Executive Officer)

/s/ William E. Mudd

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William E. Mudd  
President and  
Chief Operating Officer  
February 28, 2018

/s/ Marcia A. Dall

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Marcia A. Dall  
Executive Vice President and  
Chief Financial Officer  
February 28, 2018  
(Principal Financial and  
Accounting Officer)

/s/ G. Watts Humphrey, Jr.

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G. Watts Humphrey, Jr.  
February 28, 2018  
(Chairman of the Board)

/s/ R. Alex Rankin

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R. Alex Rankin  
February 28, 2018  
(Vice Chairman of the Board)

/s/ Ulysses L. Bridgeman

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Ulysses L. Bridgeman  
February 28, 2018  
(Director)

/s/ Craig J. Duchossois

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Craig J. Duchossois  
February 28, 2018  
(Director)

/s/ Richard L. Duchossois

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Richard L. Duchossois  
February 28, 2018  
(Director)

/s/ Robert L. Evans

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Robert L. Evans  
February 28, 2018  
(Director)

/s/ Robert L. Fealy

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Robert L. Fealy  
February 28, 2018  
(Director)

/s/ Douglas C. Grissom

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Douglas C. Grissom  
February 28, 2018  
(Director)

/s/ Daniel P. Harrington

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Daniel P. Harrington  
February 28, 2018  
(Director)

**CHURCHILL DOWNS INCORPORATED**  
**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**

<i>(in millions)</i>	<b>Balance Beginning of Year</b>	<b>Charged to Expense</b>	<b>Deductions</b>	<b>Balance End of Year</b>
Allowance for doubtful accounts:				
2017	\$ 3.5	\$ 1.8	\$ (1.7)	\$ 3.6
2016	3.8	1.5	(1.8)	3.5
2015	4.2	1.3	(1.7)	3.8

<i>(in millions)</i>	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance End of Year</b>
Deferred income tax asset valuation allowance:				
2017	\$ 0.4	\$ —	\$ (0.2)	\$ 0.2
2016	0.9	—	(0.5)	0.4
2015	1.2	—	(0.3)	0.9

## SUBSIDIARIES OF THE REGISTRANT

December 31, 2017

Subsidiary	State/Jurisdiction of Incorporation/Organization
3 Minute Games LLC	Washington
Arlington OTB Corp.	Delaware
Arlington Park Racecourse, LLC	Illinois
BB Development, LLC d/b/a Oxford Casino	Maine
BFG Holding LLC	Washington
BFG Washington, Inc.	Washington
Big Fish Games do Brasil Participações Ltda.	Brazil
Big Fish Games Ireland Limited	Ireland
Big Fish Games Luxembourg S.à.r.l	Luxembourg
Big Fish Games, Inc.	Washington
Bluff Holding Company, LLC	Delaware
Bluff Holdings Georgia, Inc.	Georgia
Calder Race Course, Inc., d/b/a Calder Casino and Race Course	Florida
CDTC, LLC	Nevada
Churchill Downs Interactive Gaming, LLC	Delaware
Churchill Downs Louisiana Horseracing Company, LLC d/b/a Fair Grounds Race Course & Slots	Louisiana
Churchill Downs Louisiana Video Poker Company, LLC	Louisiana
Churchill Downs Management Company, LLC	Kentucky
Churchill Downs Racetrack, LLC	Kentucky
Churchill Downs Technology Initiatives Company d/b/a Bloodstock Research Information Services and TwinSpires.com	Delaware
HCRH, LLC	Delaware
Launchpad Games LLC	Washington
Magnolia Hill, LLC d/b/a Riverwalk Casino Hotel, LLC	Delaware
Miami Valley Gaming & Racing, LLC	Delaware
MVGR, LLC	Delaware
Old Bay Gaming and Racing, LLC	Delaware
Quad City Downs, Inc.	Iowa
Saratoga Casino Holdings LLC	Delaware
Slots, Slot Machines and Slots Tournaments LLC	Washington
SW Gaming, LLC d/b/a Harlow's Casino Resort & Spa	Mississippi
Tracknet, L.L.C	Kentucky
Tropical Park, LLC	Florida
United Tote Canada, Inc.	Ontario
United Tote Company	Montana
Velocity Wagering HC, LLC	Delaware
Velocity Wagering Services Limited	Isle of Man
Video Services, LLC	Louisiana
Youbet.com, LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-210943, 333-197102, 333-182929, 333-182928, 333-144192, 333-144191, 333-144182, 333-135360, 333-127057, 333-116734, 333-116733, 333-106310, 333-100574, 333-43486, 333-41376, 333-62013, and 033-61111) of Churchill Downs Incorporated of our report dated February 28, 2018 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky

February 28, 2018

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, William C. Carstanjen, certify that:

1. I have reviewed this Annual Report on Form 10-K of Churchill Downs Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2018

/s/ William C. Carstanjen

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

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Marcia A. Dall, certify that:

1. I have reviewed this Annual Report on Form 10-K of Churchill Downs Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2018

/s/ Marcia A. Dall

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Marcia A. Dall  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Churchill Downs Incorporated (the "Company") for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William C. Carstanjen, as Chief Executive Officer (Principal Executive Officer) of the Company, and Marcia A. Dall, as Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his or her knowledge, as applicable, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William C. Carstanjen

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William C. Carstanjen  
Chief Executive Officer  
(Principal Executive Officer)  
February 28, 2018

/s/ Marcia A. Dall

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Marcia A. Dall  
Chief Financial Officer  
(Principal Financial and Accounting Officer)  
February 28, 2018

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

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