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

FORM 10-Q

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from ______ to______
Commission file number 001-33998

Churchill Downs Incorporated

(Exact name of registrant as specified in its charter)

Kentucky	**61-0156015**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
600 North Hurstbourne Parkway, Suite 400	
Louisville, Kentucky	**40222**
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

The number of shares outstanding of registrant’s common stock at October 13, 2021 was 38,249,128 shares.

CHURCHILL DOWNS INCORPORATED
INDEX TO QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended September 30, 2021

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

(in millions, except per common share data)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Net revenue:				
Live and Historical Racing	$ 79.7	$ 63.8	$ 318.8	$ 115.2
TwinSpires	101.8	127.1	337.1	317.5
Gaming	185.3	133.5	523.3	316.7
All Other	26.2	13.4	53.2	26.4
Total net revenue	393.0	337.8	1,232.4	775.8
Operating expense:				
Live and Historical Racing	62.3	55.7	217.3	121.9
TwinSpires	77.5	84.0	247.3	209.5
Gaming	127.7	96.2	355.0	265.8
All Other	19.8	13.1	50.1	37.3
Selling, general and administrative expense	36.1	38.8	99.7	85.3
Asset impairments	—	—	11.2	17.5
Transaction expense, net	2.0	0.5	2.1	1.0
Total operating expense	325.4	288.3	982.7	738.3
Operating income	67.6	49.5	249.7	37.5
Other income (expense):				
Interest expense, net	(21.7)	(19.7)	(63.1)	(59.3)
Equity in income of unconsolidated affiliates	41.7	27.6	103.0	13.2
Miscellaneous, net	0.1	(0.4)	0.3	(0.1)
Total other income (expense)	20.1	7.5	40.2	(46.2)
Income (loss) from continuing operations before (provision) benefit for income taxes	87.7	57.0	289.9	(8.7)
Income tax (provision) benefit	(26.3)	(13.9)	(84.1)	5.6
Income (loss) from continuing operations, net of tax	61.4	43.1	205.8	(3.1)
Loss from discontinued operations, net of tax	—	—	—	(96.1)
Net income (loss)	61.4	43.1	205.8	(99.2)
Net loss attributable to noncontrolling interest	—	(0.1)	—	(0.2)
Net income (loss) and comprehensive income (loss) attributable to Churchill Downs Incorporated	$ 61.4	$ 43.2	$ 205.8	$ (99.0)
Net income (loss) per common share data - basic:				
Continuing operations	$ 1.59	$ 1.09	$ 5.31	$ (0.07)
Discontinued operations	$ —	$ —	$ —	$ (2.43)
Net income (loss) per common share data - basic	$ 1.59	$ 1.09	$ 5.31	$ (2.50)
Net income (loss) per common share data - diluted:				
Continuing operations	$ 1.57	$ 1.08	$ 5.23	$ (0.07)
Discontinued operations	$ —	$ —	$ —	$ (2.43)
Net income (loss) per common share data - diluted	$ 1.57	$ 1.08	$ 5.23	$ (2.50)
Weighted average shares outstanding:				
Basic	38.6	39.5	38.7	39.6
Diluted	39.2	40.1	39.3	39.6

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

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions)	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 315.7	$ 67.4
Restricted cash	70.6	53.6
Accounts receivable, net	50.6	36.5
Income taxes receivable	54.7	49.4
Other current assets	36.5	28.2
Total current assets	528.1	235.1
Property and equipment, net	1,053.4	1,082.1
Investment in and advances to unconsolidated affiliates	655.1	630.6
Goodwill	366.8	366.8
Other intangible assets, net	349.3	350.6
Other assets	20.8	21.2
Total assets	$ 2,973.5	$ 2,686.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 92.4	$ 70.7
Accrued expenses and other current liabilities	227.4	167.8
Current deferred revenue	25.7	32.8
Current maturities of long-term debt	7.0	4.0
Dividends payable	—	24.9
Current liabilities of discontinued operations	—	124.0
Total current liabilities	352.5	424.2
Long-term debt, net of current maturities and loan origination fees	670.0	530.5
Notes payable, net of debt issuance costs	1,292.0	1,087.8
Non-current deferred revenue	13.3	17.1
Deferred income taxes	255.9	213.9
Other liabilities	51.0	45.8
Total liabilities	2,634.7	2,319.3
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	—	—
Common stock	—	18.2
Retained earnings	339.7	349.8
Accumulated other comprehensive loss	(0.9)	(0.9)
Total shareholders' equity	338.8	367.1
Total liabilities and shareholders' equity	$ 2,973.5	$ 2,686.4

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

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

(in millions, except per common share data)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Shareholders' Equity
Balance, December 31, 2020	39.5	$ 18.2	$ 349.8	$ (0.9)	$ —	$ 367.1
Net income			36.1			36.1
Issuance of common stock	0.1					—
Repurchase of common stock	(1.0)	(22.0)	(171.9)			(193.9)
Taxes paid related to net share settlement of stock awards	(0.1)		(12.6)			(12.6)
Stock-based compensation		5.5				5.5
Balance, March 31, 2021	38.5	1.7	201.4	(0.9)	—	202.2
Net income			108.3			108.3
Stock-based compensation		7.1				7.1
Other			(0.2)			(0.2)
Balance, June 30, 2021	38.5	8.8	309.5	(0.9)	—	317.4
Net income			61.4			61.4
Issuance of common stock		2.5				2.5
Repurchase of common stock	(0.2)	(19.1)	(30.9)			(50.0)
Taxes paid related to net share settlement of stock awards			(0.3)			(0.3)
Stock-based compensation		7.8				7.8
Balance, September 30, 2021	38.3	$ —	$ 339.7	$ (0.9)	$ —	$ 338.8

(in millions, except per common share data)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Shareholders' Equity
Balance, December 31, 2019	39.7	$ —	$ 509.2	$ (0.9)	$ 2.7	$ 511.0
Net loss			(23.4)		(0.1)	(23.5)
Repurchase of common stock	(0.3)	(4.3)	(23.6)			(27.9)
Cash settlement of stock awards			(12.7)			(12.7)
Taxes paid related to net share settlement of stock awards			(15.1)			(15.1)
Stock-based compensation		4.3				4.3
Adoption of ASC 326			(0.5)			(0.5)
Balance, March 31, 2020	39.4	—	433.9	(0.9)	2.6	435.6
Net loss			(118.8)			(118.8)
Stock-based compensation		6.1				6.1
Other			(0.2)			(0.2)
Balance, June 30, 2020	39.4	6.1	314.9	(0.9)	2.6	322.7
Net income			43.2		(0.1)	43.1
Purchase of noncontrolling interest			(0.5)		(2.5)	(3.0)
Issuance of common stock	0.1	2.5				2.5
Stock-based compensation		6.9				6.9
Balance, September 30, 2020	39.5	$ 15.5	$ 357.6	$ (0.9)	$ —	$ 372.2

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

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

	Nine Months Ended September 30,	
(in millions)	**2021**	**2020**
Cash flows from operating activities:		
Net income (loss)	$ 205.8	$ (99.2)
Loss from discontinued operations, net of tax	—	(96.1)
Income (loss) from continuing operations, net of tax	$ 205.8	$ (3.1)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	$ 77.9	$ 66.5
Distributions from unconsolidated affiliates	77.7	12.8
Equity in income of unconsolidated affiliates	(103.0)	(13.2)
Stock-based compensation	20.4	17.3
Deferred income taxes	12.8	22.0
Asset impairments	11.2	17.5
Amortization of operating lease assets	4.3	3.7
Other	5.9	3.5
Changes in operating assets and liabilities:		
Income taxes	23.8	(26.2)
Deferred revenue	(11.6)	(1.9)
Other assets and liabilities	65.8	39.7
Net cash provided by operating activities	391.0	138.6
Cash flows from investing activities:		
Capital maintenance expenditures	(22.3)	(18.2)
Capital project expenditures	(29.8)	(191.9)
Other	(3.1)	(2.7)
Net cash used in investing activities	(55.2)	(212.8)
Cash flows from financing activities:		
Proceeds from borrowings under long-term debt obligations	780.8	726.0
Repayments of borrowings under long-term debt obligations	(429.2)	(34.4)
Payment of dividends	(24.8)	(23.4)
Repurchase of common stock	(242.4)	(28.4)
Cash settlement of stock awards	—	(12.7)
Taxes paid related to net share settlement of stock awards	(12.9)	(15.1)
Debt issuance costs	(6.9)	(1.7)
Change in bank overdraft	(13.4)	—
Other	2.3	2.3
Net cash provided by financing activities	53.5	612.6
Cash flows from discontinued operations:		
Operating activities of discontinued operations	(124.0)	(1.3)
Net increase in cash, cash equivalents and restricted cash	265.3	537.1
Cash, cash equivalents and restricted cash, beginning of period	121.0	142.5
Cash, cash equivalents and restricted cash, end of period	$ 386.3	$ 679.6

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

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

(in millions)	Nine Months Ended September 30, 2021		2020	
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	56.8	$	57.3
Income taxes		47.0		1.4
Schedule of non-cash operating, investing and financing activities:				
Property and equipment additions included in accounts payable and accrued expenses	$	6.6	$	10.5
Right-of-use assets obtained in exchange for lease obligations in operating leases		9.6		2.8
Repurchase of common stock included in accrued expense and other current liabilities		1.5		—

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

1. DESCRIPTION OF BUSINESS

Basis of Presentation

Churchill Downs Incorporated (the "Company", "we", "us", "our") financial statements are presented in conformity with the requirements of this Quarterly Report on Form 10-Q and consequently do not include all of the disclosures normally required by U.S. generally accepted accounting principles ("GAAP") or those normally made in our Annual Report on Form 10-K. The December 31, 2020 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP.

The following information is unaudited. All per share amounts assume dilution unless otherwise noted. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2020.

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

We conduct our business through three reportable segments: Live and Historical Racing, TwinSpires, and Gaming. We aggregate our other businesses as well as certain corporate operations, and other immaterial joint ventures, in All Other. We report net revenue and operating expense associated with these reportable segments in the accompanying condensed consolidated statements of comprehensive income (loss).

Segments

During the first quarter of 2021, we updated our operating segments to reflect the internal management reporting used by our chief operating decision maker to evaluate results of operations and to assess performance and allocate resources. Our internal management reporting changed primarily due to the continued growth from Oak Grove Racing, Gaming & Hotel ("Oak Grove") and Turfway Park, which opened its annex historical racing machine ("HRM") facility, Newport Racing & Gaming ("Newport"), in October 2020, which resulted in our chief operating decision maker's decision to include Oak Grove, Turfway Park and Newport in the new Live and Historical Racing segment. The Live and Historical Racing segment now includes Churchill Downs Racetrack, Derby City Gaming, Oak Grove, Turfway Park, and Newport. We also realigned our retail sports betting results at our wholly-owned casinos from our Gaming segment to our TwinSpires segment. As a result of this realignment, our operating segments that meet the requirements to be disclosed separately as reportable segments are: Live and Historical Racing, TwinSpires, and Gaming. We conduct our business through these reportable segments and report net revenue and operating expense associated with these reportable segments in our condensed consolidated statements of comprehensive income (loss). The prior year results in the accompanying condensed consolidated statements of comprehensive income (loss) were reclassified to conform to this presentation.

Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The COVID-19 global pandemic has resulted in travel limitations and business and government shutdowns which have had significant negative economic impacts in the United States and in relation to our business. Although vaccines are now available, we cannot predict the duration of the COVID-19 global pandemic. The extent to which the COVID-19 pandemic, including the emergence of variant strains, will continue to impact the Company remains uncertain and will depend on many factors that are not within our control.

In March 2020, as a result of the COVID-19 outbreak, we temporarily suspended operations at our wholly-owned and managed gaming properties, announced the temporary furlough of our employees at these properties and certain racing operations, and implemented a temporary salary reduction for all remaining non-furloughed salaried employees based on a percentage that varied dependent upon the amount of each employee’s salary. The most senior level of executive management received the largest salary decrease, based on both percentage and dollar amount.

In May 2020, we began to reopen our properties with patron restrictions and gaming limitations. One property temporarily suspended operations again in July 2020 and reopened in August 2020, and three properties temporarily suspended operations again in December 2020 and reopened in January 2021. The Company provided health, dental, vision and life insurance benefits to furloughed employees through July 31, 2020 and during the subsequent property closure periods.

During the second quarter of 2021, we held the 147th Kentucky Oaks and Derby with capacity restrictions in compliance with Kentucky venue limitations at that time. The capacity restrictions limited reserved seating in each area to approximately 40% to 60% capacity and also limited general admission tickets. The 146th Kentucky Oaks and Derby was held in the third quarter of 2020 without spectators.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Adopted on January 1, 2021

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740, Income Taxes. The amendments also clarify and amend existing guidance to improve consistent application of and simplify GAAP for other areas of Topic 740. This ASU is effective for public business entities for fiscal years and interim periods beginning after December 15, 2020. The adoption of this ASU did not have a material impact on our business.

Effective after 2021

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions to applying the guidance on contract modifications, hedge accounting, and other transactions, and to simplify the accounting for transitioning from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The guidance was effective upon issuance and if elected, will be applied prospectively through December 31, 2022. We are currently evaluating the effect the adoption of this new accounting standard will have on our results of operations, financial condition, and cash flows.

3. ASSETS HELD FOR SALE

On September 29, 2021, the Company announced an agreement to sell the 326-acre property in Arlington Heights, Illinois (the "Arlington Property"), which is the current home of Arlington International Racecourse ("Arlington"), to the Chicago Bears for $197.2 million. The closing of the sale of the Arlington Property is subject to the satisfaction of various closing conditions. The Company anticipates closing the sale of the Arlington Property in late 2022 or early 2023.

The Company has classified certain assets of Arlington totaling $81.5 million as held for sale as of September 30, 2021, which are included in property and equipment, net on the accompanying condensed consolidated balance sheets. Arlington’s operations and assets are included in All Other in our consolidated results.

4. NATURAL DISASTER

In August 2021, Hurricane Ida caused damage to portions of Louisiana, including Fair Grounds Race Course & Slots, and 15 off-track betting facilities ("OTBs") owned by Video Services, LLC ("VSI") (collectively, "Fair Grounds and VSI"). All of the Fair Grounds and VSI operations were reopened as of September 30, 2021, with the exception of two OTBs.

The Company carries property and casualty insurance, as well as business interruption insurance subject to certain deductibles. As of September 30, 2021, the Company has recorded a reduction of property and equipment, net of $3.1 million and incurred $2.2 million in operating expenses, with an offsetting insurance recovery receivable of $5.3 million. The Company is currently working with its insurance carriers to finalize its claim. We continue to assess damages and insurance coverage, and we currently do not expect our losses to exceed the applicable insurance recoveries.

5. DISCONTINUED OPERATIONS

On January 9, 2018, the Company completed the sale of its mobile gaming subsidiary, Big Fish Games, Inc. ("Big Fish Games"), a Washington corporation, to Aristocrat Technologies, Inc., a Nevada corporation, an indirect, wholly-owned subsidiary of Aristocrat Leisure Limited, an Australian corporation (the "Big Fish Transaction") pursuant to a definitive Stock Purchase Agreement.

The Big Fish Games business and the related Big Fish Transaction meet the criteria for discontinued operation presentation. The condensed consolidated statements of comprehensive income (loss), condensed consolidated statements of cash flows, and the notes to condensed consolidated financial statements reflect Big Fish Games as discontinued operations for all periods presented. The Company previously included both continuing and discontinued operations in our condensed consolidated statement of cash flows. The prior year results were reclassified to conform to the current period presentation.

On May 22, 2020, we entered into an agreement in principle to settle Cheryl Kater v. Churchill Downs Incorporated and Manasa Thimmegowda v. Big Fish Games, Inc. The $124.0 million settlement was paid on March 25, 2021.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Net revenue	$ —	$ —	$ —	$ —
Selling, general and administrative expense	—	—	—	1.5
Legal settlement	—	—	—	124.0
Loss from discontinued operations before benefit for income taxes	—	—	—	(125.5)
Income tax benefit	—	—	—	29.4
Loss from discontinued operations, net of tax	$ —	$ —	$ —	$ (96.1)

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill was $366.8 million as of September 30, 2021 and December 31, 2020. We performed our annual goodwill impairment analysis as of April 1, 2021, and no adjustment to the carrying value of goodwill was required. We assessed goodwill for impairment by performing qualitative or quantitative analyses for each reporting unit. We concluded that the fair values of our reporting units exceeded their carrying values, and therefore no impairments were identified.

In the first quarter of 2021, we realigned our segments as described in Note 1, Description of Business. This change resulted in the allocation of $4.0 million of goodwill from the Gaming segment to the TwinSpires segment based on the relative fair value approach. The Company evaluated whether an interim goodwill impairment test should be performed as a result of our segment changes. Based on this evaluation, the Company determined this event did not indicate it was more likely than not that a goodwill impairment exists.

Other intangible assets are comprised of the following:

	September 30, 2021			December 31, 2020		
(in millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Definite-lived intangible assets	$ 31.2	$ (17.9)	$ 13.3	$ 31.2	$ (16.6)	$ 14.6
Indefinite-lived intangible assets			336.0			336.0
Total			$ 349.3			$ 350.6

We performed our annual indefinite-lived intangible assets impairment analysis as of April 1, 2021. We assessed our indefinite-lived intangible assets for impairment by performing qualitative or quantitative analyses for each asset. Based on the results of these analyses, no indefinite-lived intangible asset impairments were identified in connection with our annual impairment testing.

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

7. ASSET IMPAIRMENTS

During the quarter ended June 30, 2021, the Company recorded an $11.2 million non-cash impairment charge related to certain assets at Churchill Downs Racetrack included in our Live and Historical Racing segment. The impairment was due to a change in the Churchill Downs Racetrack capital plans and the Company's planned usage of these assets.

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

The initial fair value of Presque Isle gaming rights in the first quarter of 2019 was determined using the Greenfield Method, which is an income approach methodology that calculates the present value based on a projected cash flow stream. This method assumes that the Presque Isle gaming rights provide the opportunity to develop a casino and online wagering platform in a specified region, and that the present value of the projected cash flows are a result of the realization of advantages contained in these rights. Under this methodology, the acquirer is expected to absorb all start-up costs, as well as incur all expenses pertaining to the acquisition and / or the creation of all tangible and intangible assets. The estimated future revenue, operating expenses, start-up costs, and discount rate were the primary inputs in the valuation.

Based on the Trigger Event in 2020, the Company updated the discount rate to reflect the increased uncertainty of the cash flows and updated the projected cash flow stream. As a result, the $77.6 million carrying value of the Presque Isle gaming rights exceeded the fair value of $62.6 million, and the Company recognized an impairment of $15.0 million in first quarter of 2020 for the Presque Isle gaming rights ($12.5 million related to the Gaming segment and $2.5 million related to the TwinSpires segment).

The Presque Isle trademark was initially valued in first quarter of 2019 using the relief-from-royalty method of the income approach, which estimates the fair value of the intangible asset by discounting the fair value of the hypothetical royalty payments a market participant would be willing to pay to enjoy the benefits of the asset. The estimated future revenue, royalty rate, and discount rate were the primary inputs in the valuation of the trademark.

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

The fair value of the Presque Isle reporting unit's goodwill was determined under the market and income valuation approaches using inputs primarily related to discounted projected cash flows and price multiples of publicly traded comparable companies.

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

8. INCOME TAXES

The Company’s effective income tax rate for the three and nine months ended September 30, 2021 was higher than the U.S. federal statutory rate of 21.0% primarily resulting from state income taxes and non-deductible officer’s compensation.

The Company’s effective income tax rate for the three and nine months ended September 30, 2020 reflect a tax benefit on a pretax loss, while the annual estimated effective tax rate for 2020 reflected tax expense on pretax income. The effective income tax rate for both periods were higher than the U.S. federal statutory rate of 21.0% primarily resulting from state income taxes and non-deductible officer’s compensation. The effective income tax rate for the nine months ended September 30, 2020 was also higher due to the establishment of a valuation allowance against current year state income tax losses in certain jurisdictions that don’t require combined reporting and from vesting of restricted stock compensation in excess of book deductions. The Company’s annual estimated effective tax rate for 2020 included a 14% tax benefit from a current year federal taxable loss which will be carried back to a pre-2018 tax year, reducing the effective income tax rate applied to the pretax loss for both the three and nine months ended September 30, 2020.

9. SHAREHOLDERS' EQUITY

On October 30, 2018, the Board of Directors of the Company approved a common stock repurchase program of up to $300.0 million ("2018 Stock Repurchase Program"). The 2018 Stock Repurchase Program was in effect until September 29, 2021 and had unused authorization of $97.9 million.

On February 1, 2021, the Company entered into an agreement (the "Stock Repurchase Agreement") with an affiliate of The Duchossois Group, Inc. ("TDG") to repurchase 1,000,000 shares of the Company's common stock for $193.94 per share in a privately negotiated transaction for an aggregate purchase price of $193.9 million. The repurchase of shares of common stock from TDG pursuant to the Stock Repurchase Agreement was approved by the Company's Board of Directors separately from, and did not reduce the authorized amount remaining under, the existing common stock repurchase program. The Company repurchased the shares using available cash and borrowings under the Revolver (as defined in Note 11, Debt).

For the three and nine months ended September 30, 2021, we repurchased 245,132 shares under the 2018 Stock Repurchase Program at the aggregate purchase price of $49.2 million based on trade date. We repurchased 235,590 shares of our common stock under this program at an aggregate purchase price of $27.9 million based on trade date for the nine months ended September 30, 2020. There were no purchases for the three months ended September 30, 2020.

On September 29, 2021, the Board of Directors of the Company approved a common stock repurchase program of up to $500.0 million ("2021 Stock Repurchase Program"). The 2021 Stock Repurchase Program includes and is not in addition to any unspent amount remaining under the prior 2018 Stock Purchase Program authorization. Repurchases may be made at management's discretion from time to time on the open market (either with or without a 10b5-1 plan) or through privately negotiated transactions. The repurchase program has no time limit and may be suspended or discontinued at any time.

We have approximately $499.2 million of repurchase authority remaining under the 2021 Stock Repurchase Program at September 30, 2021, based on trade date. We repurchased 3,178 shares of our common stock under the 2021 Stock Repurchase Program at an aggregate purchase price of $0.8 million based on trade date for the three and nine months ended September 30, 2021.

As of September 30, 2021, we had $1.5 million accrued for the future cash settlement of executed repurchases of our common stock and no accrual as of September 30, 2020.

10. STOCK-BASED COMPENSATION PLANS

We have stock-based employee compensation plans with awards outstanding under the Churchill Downs Incorporated 2016 Omnibus Stock Incentive Plan (the "2016 Plan") and the Executive Long-Term Incentive Compensation Plan, which was adopted pursuant to the 2016 Plan. Our total stock-based compensation expense, which includes expenses related to restricted stock awards, restricted stock unit awards ("RSUs"), performance share unit awards ("PSUs"), and stock options associated with our employee stock purchase plan was $7.8 million for the three months ended September 30, 2021 and $6.9 million for the three months ended September 30, 2020. Stock-based compensation expense was $20.4 million for the nine months ended September 30, 2021 and $17.3 million for the nine months ended September 30, 2020.

During the nine months ended September 30, 2021, the Company awarded RSUs to employees, RSUs and PSUs to certain named executive officers ("NEOs"), and RSUs to directors. The vesting criteria for the PSU awards granted in 2021 were based on a three-year service period with two performance conditions and a market condition related to relative total shareholder return ("TSR") consistent with prior year grants. The total compensation cost we will recognize under the PSUs is determined using the Monte Carlo valuation methodology, which factors in the value of the TSR market condition when determining the grant date fair value of the PSU. Compensation cost for each PSU is recognized during the performance and service period based on the probable achievement of the two performance criteria. The PSUs are converted into shares of our common stock at the time the PSU award value is finalized.

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

A summary of the RSUs and PSUs granted during 2021 is presented below (units in thousands):

Grant Year	Award Type	Number of Units Awarded (1)	Vesting Terms
2021	RSU	63	Vest equally over three service periods ending in 2024
2021	PSU	27	Three-year performance and service period ending in 2023
2021	RSU	5	One-year service period ending in 2022

(1) PSUs reflect the target number of units for the original PSU grant.

11. DEBT

Credit Agreement

On December 27, 2017, we entered into a senior secured credit agreement (as amended, the "Credit Agreement") with a syndicate of lenders. The Credit Agreement provides for a $700.0 million senior secured revolving credit facility due 2024 (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 Credit Agreement is collateralized by substantially all of the wholly-owned assets of the Company.

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

On February 1, 2021, the Company entered into the Third Amendment to the Credit Agreement to increase the restricted payments capacity during the Financial Covenant Relief Period from $26.0 million to $226.0 million to accommodate a share repurchase from an affiliate of TDG. Refer to Note 9, Shareholders' Equity, for information regarding this transaction.

On March 17, 2021, the Company entered into the Incremental Joinder Agreement No. 1 (the "Joinder") to its Credit Agreement which provided $300.0 million in New Term Loan Commitments ("Term Loan B-1") as a new tranche of term loans under the existing Credit Agreement (as conformed to recognize the new loan), and carries a maturity date of March 17, 2028. The Term Loan B-1 bears interest at LIBOR plus 200 basis points and requires quarterly payments of 0.25% of the original $300.0 million balance. The Term Loan B-1 may be subject to additional mandatory prepayment from excess cash flow on an annual basis per the provisions of the Credit Agreement. The Company capitalized $3.5 million of debt issuance costs associated with the Joinder which are being amortized as interest expense over the 7-year term of the Term Loan B-1.

The interest rate on the Revolver on September 30, 2021 was LIBOR plus 150 basis points based on the Revolver pricing grid in the Second Amendment and the Company's net leverage ratio as of June 30, 2021. The Term Loan B and Term Loan B-1 bear interest at LIBOR plus 200 basis points.

The Company was compliant with all applicable covenants on September 30, 2021.

2028 Senior Notes Second Supplemental Indenture

On March 17, 2021, the Company completed an offering of $200.0 million in aggregate principal amount of 4.75% Senior Unsecured Notes that mature on January 15, 2028 (the "Additional 2028 Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act, and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The Additional 2028 Notes were offered under the indenture dated as of December 27, 2017, governing the $500.0 million aggregate principal amount of 4.75% Senior Unsecured Notes due 2028 ("Existing 2028 Notes") and form a part of the same series for purposes of the indenture. In connection with the offering, we capitalized $3.4 million of debt issuance costs which are being amortized as interest expense over the term of the Additional 2028 Notes. Upon completion of this offering, the aggregate principal amount outstanding of the Existing 2028 Notes, together with the Additional 2028 Notes (collectively the "2028 Senior Notes"), is $700.0 million.

The Additional 2028 Notes were issued at 103.25% of the principal amount, plus interest deemed to have accrued from January 15, 2021, with interest payable on January 15th and July 15th of each year, commencing on July 15, 2021. The 2028 Senior Notes will vote as one class under the indenture governing the 2028 Senior Notes. The 3.25% premium will be amortized through interest expense, net over the term of the Additional 2028 Notes.

The Company used the net proceeds from the Additional 2028 Notes and the Term Loan B-1 (i) to repay indebtedness outstanding under our Revolving Credit Facility, (ii) to fund related transaction fees and expenses and (iii) for working capital and other general corporate purposes.

The Company may redeem some or all of the Additional 2028 Notes at any time at redemption prices set forth in the 2028 Offering Memorandum.

In connection with the issuance of the Additional 2028 Notes, the Company and the 2028 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 March 17, 2021.

12. REVENUE FROM CONTRACTS WITH CUSTOMERS

Performance Obligations

As of September 30, 2021, the Live and Historical Racing segment had remaining performance obligations on contracts with a duration greater than one year of an aggregate transaction price of $105.7 million. The revenue we expect to recognize on these remaining performance obligations is $0.5 million for the remainder of 2021, $37.9 million in 2022, $27.4 million in 2023, and the remainder thereafter.

As of September 30, 2021, our remaining performance obligations in segments other than Live and Historical Racing were not material.

Contract Assets and Contract Liabilities

As of September 30, 2021 and December 31, 2020, contract assets were not material.

As of September 30, 2021 and December 31, 2020, contract liabilities were $43.5 million and $53.7 million, respectively, which are included in current deferred revenue, non-current deferred revenue, and accrued expense in the accompanying condensed consolidated balance sheets. Contract liabilities primarily relate to the Live and Historical Racing segment and the decrease was primarily due to revenue recognized for fulfilled performance obligations. We recognized $1.2 million of revenue during the three months ended September 30, 2021, and $32.7 million of revenue during the nine months ended September 30, 2021, which was included in the contract liabilities balance at December 31, 2020. We recognized $1.7 million of revenue during the three months ended September 30, 2020 and $5.8 million of revenue during the nine months ended September 30, 2020, which was included in the contract liabilities balance at December 31, 2019.

Disaggregation of Revenue

In Note 18, Segment Information, the Company has included its disaggregated revenue disclosures as follows:

- For the Live and Historical Racing segment, revenue is disaggregated between racing facilities and HRM facilities given that our racing facilities revenues primarily revolve around live racing events while our HRM facilities revenues primarily revolve around historical racing events. This segment is also disaggregated by location given the geographic economic factors that affect the revenue of service offerings. Within the Live and Historical racing segment, revenue is further disaggregated between live and simulcast racing, historical racing, racing event-related services, and other services.
- For the TwinSpires segment, revenue is disaggregated between Horse Racing and Sports and Casino given that Horse Racing revenue is primarily related to online pari-mutuel wagering on live race events while Sports and Casino revenue relates to casino gaming service offerings. Within the TwinSpires segment, revenue is further disaggregated between live and simulcast racing, gaming, and other services.
- For the Gaming segment, revenue is disaggregated by location given the geographic economic factors that affect the revenue of Gaming service offerings. Within the Gaming segment, revenue is further disaggregated between live and simulcast racing, racing event-related services, gaming, and other services.

We believe that these disclosures depict how the amount, nature, timing, and uncertainty of cash flows are affected by economic factors.

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

(in millions)	September 30, 2021	December 31, 2020
Account wagering deposits liability	$ 53.4	$ 38.1
Purses payable	38.1	18.5
Accrued salaries and related benefits	28.0	19.6
Accrued interest	23.9	19.2
Other	84.0	72.4
Total	$ 227.4	$ 167.8

14. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

Investments in and advances to unconsolidated affiliates as of September 30, 2021 and December 31, 2020 primarily consisted of a 61.3% interest in Rivers Casino Des Plaines ("Rivers Des Plaines"), a 50% interest in Miami Valley Gaming and Racing ("MVG"), and other immaterial joint ventures.

Rivers Des Plaines

The ownership of Rivers Des Plaines is comprised of the following: (1) the Company owns 61.3%; (2) High Plaines Gaming, LLC ("High Plaines"), an affiliate of Rush Street Gaming, LLC, owns 36.0%, and (3) Casino Investors, LLC owns 2.7%. Both the Company and High Plaines have participating rights over Rivers Des Plaines, and both must consent to operating, investing and financing decisions. As a result, we account for Rivers Des Plaines using the equity method. As of September 30, 2021, the net aggregate basis difference between the Company's investment in Rivers Des Plaines and the amounts of the underlying equity in net assets was $832.6 million.

Our investment in Rivers Des Plaines was $547.2 million and $519.0 million as of September 30, 2021 and December 31, 2020, respectively. The Company received distributions from Rivers Des Plaines of $44.5 million and $2.3 million for the nine months ended September 30, 2021 and 2020, respectively.

Miami Valley Gaming

Delaware North Companies Gaming & Entertainment Inc. ("DNC") owns the remaining 50% interest in MVG. Since both we and DNC have participating rights over MVG, and both must consent to MVG's operating, investing and financing decisions, we account for MVG using the equity method.

Our investment in MVG was $107.8 million and $110.7 million as of September 30, 2021 and December 31, 2020, respectively. The Company received distributions from MVG of $33.0 million and $10.5 million for the nine months ended September 30, 2021 and 2020, respectively.

Summarized Financial Results for our Unconsolidated Affiliates

Summarized below are the financial results for our unconsolidated affiliates.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2021	2020	2021	2020
Net revenue	$ 202.4	$ 148.2	$ 539.0	$ 292.8
Operating and SG&A expense	115.2	86.1	310.6	194.1
Depreciation and amortization	4.4	4.3	13.1	12.6
Total operating expense	119.6	90.4	323.7	206.7
Operating income	82.8	57.8	215.3	86.1
Interest and other, net	(10.4)	(9.4)	(34.7)	(58.6)
Net income	$ 72.4	$ 48.4	$ 180.6	$ 27.5

(in millions)	September 30, 2021		December 31, 2020	
Assets				
Current assets	$	92.6	$	132.8
Property and equipment, net		283.9		267.5
Other assets, net		266.4		244.9
Total assets	$	642.9	$	645.2
Liabilities and Members' Deficit				
Current liabilities	$	95.4	$	133.5
Long-term debt		761.5		753.5
Other liabilities		29.5		42.3
Members' deficit		(243.5)		(284.1)
Total liabilities and members' deficit	$	642.9	$	645.2

15. FAIR VALUE OF ASSETS AND LIABILITIES

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate.

Restricted Cash

Our restricted cash accounts that are held in interest-bearing accounts qualify for Level 1 in the fair value hierarchy, which includes unadjusted quoted market prices in active markets for identical assets.

Debt

The fair value of the Company’s 2028 Senior Notes and 5.50% Senior Notes due 2027 (the "2027 Senior Notes") are estimated based on unadjusted quoted prices for identical or similar liabilities in markets that are not active and as such are Level 2 measurements. The fair values of the Company's Term Loan B, Term Loan B-1, and Revolver under the Credit Agreement approximate the gross carrying value of the variable rate debt and as such are Level 2 measurements.

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

	September 30, 2021				
(in millions)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Restricted cash	$ 70.6	$ 70.6	$ 70.6	$ —	$ —
Financial liabilities:					
Term Loan B	$ 382.4	$ 385.0	$ —	$ 385.0	$ —
Term Loan B-1	294.6	298.5	—	298.5	—
2027 Senior Notes	594.0	622.5	—	622.5	—
2028 Senior Notes	698.0	728.9	—	728.9	—
Total financial liabilities	$ 1,969.0	$ 2,034.9	$ —	$ 2,034.9	$ —

	December 31, 2020				
(in millions)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Restricted cash	$ 53.6	$ 53.6	$ 53.6	$ —	$ —
Financial liabilities:					
Term Loan B	$ 384.8	$ 388.0	$ —	$ 388.0	$ —
Revolver	149.7	149.7	—	149.7	—
2027 Senior Notes	593.2	635.2	—	635.2	—
2028 Senior Notes	494.6	526.9	—	526.9	—
Total financial liabilities	$ 1,622.3	$ 1,699.8	$ —	$ 1,699.8	$ —

16. CONTINGENCIES

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

In accordance with current accounting standards for loss contingencies and based upon information currently known to us, we establish reserves for litigation when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss or range of loss can be reasonably estimated. When no amount within the range of loss is a better estimate than any other amount, we accrue the minimum amount of the estimable loss. To the extent that such litigation against us may have an exposure to a loss in excess of the amount we have accrued, we believe that such excess would not be material to our consolidated financial condition, results of operations, or cash flows. Legal fees are expensed as incurred.

We review all litigation on an ongoing basis when making accrual and disclosure decisions. For certain legal proceedings, we cannot reasonably estimate losses or a range of loss, if any, particularly for proceedings that are in the early stages of development or where the plaintiffs seek indeterminate damages. Various factors, including, but not limited to, the outcome of potentially lengthy discovery and the resolution of important factual questions, may need to be determined before probability can be established or before a loss or range of loss can be reasonably estimated.

If the loss contingency in question is not both probable and reasonably estimable, we do not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. In the event that a legal proceeding results in a substantial judgment against, or settlement by us, there can be no assurance that any resulting liability or financial commitment would not have a material adverse impact on our business.

17. NET INCOME PER COMMON SHARE COMPUTATIONS

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

(in millions, except per share data)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Numerator for basic net income (loss) per common share:				
Net income (loss) from continuing operations	$ 61.4	$ 43.1	$ 205.8	$ (3.1)
Net loss attributable to noncontrolling interest	—	(0.1)	—	(0.2)
Net income (loss) from continuing operations, net of loss attributable to noncontrolling interests	61.4	43.2	205.8	(2.9)
Net loss from discontinued operations	—	—	—	(96.1)
Numerator for basic net income (loss) per common share	$ 61.4	$ 43.2	$ 205.8	$ (99.0)
Numerator for diluted net income (loss) from continuing operations per common share	$ 61.4	$ 43.2	$ 205.8	$ (2.9)
Numerator for diluted net income (loss) per common share	$ 61.4	$ 43.2	$ 205.8	$ (99.0)
Denominator for net income (loss) per common share:				
Basic	38.6	39.5	38.7	39.6
Plus dilutive effect of stock awards	0.6	0.6	0.6	—
Diluted	39.2	40.1	39.3	39.6
Net income (loss) per common share data:				
Basic				
Continuing operations	$ 1.59	$ 1.09	$ 5.31	$ (0.07)
Discontinued operations	$ —	$ —	$ —	$ (2.43)
Net income (loss) per common share - basic	$ 1.59	$ 1.09	$ 5.31	$ (2.50)
Diluted				
Continuing operations	$ 1.57	$ 1.08	$ 5.23	$ (0.07)
Discontinued operations	$ —	$ —	$ —	$ (2.43)
Net income (loss) per common share - diluted	$ 1.57	$ 1.08	$ 5.23	$ (2.50)
Anti-dilutive stock awards excluded from the calculation of diluted shares	—	—	—	0.6

18. SEGMENT INFORMATION

We manage our operations through three reportable segments:

- ***Live and Historical Racing***

  The Live and Historical Racing segment includes live and historical pari-mutuel racing related revenue and expenses at Churchill Downs Racetrack, Derby City Gaming, Oak Grove, Turfway Park, and Newport.

  Churchill Downs Racetrack is the home of the *Kentucky Derby* and conducts live racing during the year. Derby City Gaming is a historical racing machine facility that operates under the Churchill Downs pari-mutuel racing license at its ancillary training facility in Louisville, Kentucky. Oak Grove conducts live harness racing during the year and operates a HRM facility under its pari-mutuel racing license. Turfway Park conducts live racing during the year, and Newport is an ancillary HRM facility that operates under the Turfway Park pari-mutuel racing license.

Our Live and Historical Racing properties earn commissions primarily from pari-mutuel wagering on live and historical races; simulcast fees earned from other wagering sites; admissions, personal seat licenses, sponsorships, television rights, and other miscellaneous services (collectively "racing event-related services"), as well as food and beverage services.

- ***TwinSpires***

  The TwinSpires segment includes the revenue and expenses for the online horse racing and the online and retail sports betting and iGaming wagering business.

  TwinSpires Horse Racing operates the online horse racing wagering business for TwinSpires.com, BetAmerica.com, and other white-label platforms; facilitates high dollar wagering by international customers (through Velocity); and provides the Bloodstock Research Information Services platform for horse racing statistical data.

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

  Our TwinSpires Sports and Casino business operates our sports betting and casino iGaming platform in multiple states. The Company launched its mobile sports betting app in Michigan in January 2021, Tennessee in March 2021, and Arizona in September 2021. The TwinSpires Sports and Casino business includes the mobile and online sports betting and casino results and the results of eight of our retail sportsbooks, which include our wholly-owned properties at Harlow’s Casino Resort and Spa ("Harlow’s"), Presque Isle, and Riverwalk Casino Hotel (“Riverwalk”), as well as in Arizona, Colorado, Indiana and Michigan which utilize a third party's casino license.

- ***Gaming***

  The Gaming segment includes revenue and expenses for the casino properties and associated racetrack or jai alai facilities which support the casino license. The Gaming segment has approximately 11,000 slot machines and video lottery terminals ("VLTs") and 200 table games located in eight states.

  The Gaming segment revenue and Adjusted EBITDA includes the following properties:

  - Calder Casino and Racing ("Calder")
  - Fair Grounds and VSI
  - Harlow’s
  - Lady Luck Casino Nemacolin ("Lady Luck Nemacolin") management agreement
  - Ocean Downs Casino and Racetrack ("Ocean Downs")
  - Oxford Casino and Hotel ("Oxford")
  - Presque Isle
  - Riverwalk

  The Gaming segment Adjusted EBITDA also includes the Adjusted EBITDA related to the Company’s equity investments in the following:

  - 61.3% equity investment in Rivers Des Plaines
  - 50% equity investment in MVG

  The Gaming segment generates revenue and expenses from slot machines, table games, VLTs, video poker, retail sports betting, ancillary food and beverage services, hotel services, commission on pari-mutuel wagering, racing event-related services, and / or other miscellaneous operations.

We have aggregated the following businesses as well as certain corporate operations, and other immaterial joint ventures in "All Other" to reconcile to consolidated results:

- Arlington
- United Tote
- Corporate

We conduct our business through these reportable segments and report net revenue and operating expense associated with these reportable segments in the accompanying condensed consolidated statements of comprehensive income (loss). Eliminations include the elimination of intersegment transactions. We utilize non-GAAP measures, including EBITDA (earnings before interest, taxes, depreciation and amortization) and Adjusted EBITDA. Our chief operating decision maker utilizes Adjusted EBITDA to evaluate segment performance, develop strategy and allocate resources. Adjusted EBITDA includes the following adjustments:

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

Adjusted EBITDA excludes:

- Transaction expense, net which includes:
  - Acquisition and disposition related charges; and
  - Other transaction expense, including legal, accounting, and other deal-related expense;
- Stock-based compensation expense;
- Rivers Des Plaines' impact on our investments in unconsolidated affiliates from:
  - The impact of changes in fair value of interest rate swaps; and
  - Legal reserves and transaction costs;
- Asset impairments;
- Legal reserves;
- Pre-opening expense; and
- Other charges, recoveries and expenses

We utilize the Adjusted EBITDA metric to provide a more accurate measure of our core operating results and enable management and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. Adjusted EBITDA should not be considered as an alternative to operating income as an indicator of performance, as an alternative to cash flows from operating activities as a measure of liquidity, or as an alternative to any other measure provided in accordance with GAAP. Our calculation of Adjusted EBITDA may be different from the calculation used by other companies and, therefore, comparability may be limited. For segment reporting, Adjusted EBITDA includes intercompany revenue and expense totals that are eliminated in the accompanying condensed consolidated statements of comprehensive income (loss).

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

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Net revenue from external customers:				
Live and Historical Racing:				
Churchill Downs Racetrack	$ 7.4	$ 34.9	$ 114.6	$ 52.4
Derby City Gaming	40.2	25.9	113.0	55.2
Oak Grove	27.1	2.4	72.1	2.4
Turfway Park	0.7	0.6	5.8	5.2
Newport	4.3	—	13.3	—
Total Live and Historical Racing	79.7	63.8	318.8	115.2
TwinSpires:				
Horse Racing	93.1	124.0	313.0	310.5
Sports and Casino	8.7	3.1	24.1	7.0
Total TwinSpires	101.8	127.1	337.1	317.5
Gaming:				
Fair Grounds and VSI	24.8	27.9	98.2	70.6
Presque Isle	35.9	27.5	90.2	56.4
Ocean Downs	31.7	24.3	78.7	42.2
Calder	25.9	6.5	74.2	34.0
Oxford	31.8	12.2	72.1	32.4
Riverwalk	14.5	15.2	47.3	34.6
Harlow’s	13.3	12.7	43.9	29.7
Lady Luck Nemacolin	7.4	7.2	18.7	16.8
Total Gaming	185.3	133.5	523.3	316.7
All Other	26.2	13.4	53.2	26.4
Net revenue from external customers	$ 393.0	$ 337.8	$ 1,232.4	$ 775.8

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Intercompany net revenue:				
Live and Historical Racing	$ 1.8	$ 7.3	$ 17.9	$ 15.3
TwinSpires	0.4	0.5	1.1	1.2
Gaming	0.3	0.2	2.3	1.7
All Other	3.6	3.8	10.2	9.0
Eliminations	(6.1)	(11.8)	(31.5)	(27.2)
Intercompany net revenue	$ —	$ —	$ —	$ —

(in millions)	Three Months Ended September 30, 2021 Live and Historical Racing	TwinSpires	Gaming	Total Segments	All Other	Total
Net revenue from external customers						
Pari-mutuel:						
Live and simulcast racing	$ 5.4	$ 89.4	$ 4.9	$ 99.7	$ 12.6	$ 112.3
Historical racing[a]	66.2	—	—	66.2	—	66.2
Racing event-related services	1.8	—	0.1	1.9	5.0	6.9
Gaming[a]	—	8.7	166.6	175.3	—	175.3
Other[a]	6.3	3.7	13.7	23.7	8.6	32.3
Total	$ 79.7	$ 101.8	$ 185.3	$ 366.8	$ 26.2	$ 393.0

(in millions)	Three Months Ended September 30, 2020 Live and Historical Racing	TwinSpires	Gaming	Total Segments	All Other	Total
Net revenue from external customers						
Pari-mutuel:						
Live and simulcast racing	$ 14.9	$ 119.0	$ 4.6	$ 138.5	$ 8.4	$ 146.9
Historical racing[a]	27.1	—	—	27.1	—	27.1
Racing event-related services	19.1	—	0.7	19.8	0.2	20.0
Gaming[a]	—	3.1	122.3	125.4	—	125.4
Other[a]	2.7	5.0	5.9	13.6	4.8	18.4
Total	$ 63.8	$ 127.1	$ 133.5	$ 324.4	$ 13.4	$ 337.8

(a) Food and beverage, hotel, and other services furnished to customers for free as an inducement to wager or through the redemption of our customers' loyalty points are recorded at the estimated standalone selling prices in other revenue with a corresponding offset recorded as a reduction in historical pari-mutuel revenue for HRMs or gaming revenue for our casino properties. These amounts were $6.1 million for the three months ended September 30, 2021 and $2.1 million for the three months ended September 30, 2020.

	Nine Months Ended September 30, 2021					
(in millions)	**Live and Historical Racing**	**TwinSpires**	**Gaming**	**Total Segments**	**All Other**	**Total**
Net revenue from external customers						
Pari-mutuel:						
Live and simulcast racing	$ 50.9	$ 300.2	$ 21.0	$ 372.1	$ 27.2	$ 399.3
Historical racing[(a)]	184.0	—	—	184.0	—	184.0
Racing event-related services	65.3	—	1.0	66.3	6.9	73.2
Gaming[(a)]	—	24.1	469.3	493.4	—	493.4
Other[(a)]	18.6	12.8	32.0	63.4	19.1	82.5
Total	$ 318.8	$ 337.1	$ 523.3	$ 1,179.2	$ 53.2	$ 1,232.4

	Nine Months Ended September 30, 2020					
(in millions)	**Live and Historical Racing**	**TwinSpires**	**Gaming**	**Total Segments**	**All Other**	**Total**
Net revenue from external customers						
Pari-mutuel:						
Live and simulcast racing	$ 35.0	$ 298.5	$ 16.2	$ 349.7	$ 14.9	$ 364.6
Historical racing[(a)]	54.8	—	—	54.8	—	54.8
Racing event-related services	19.6	—	2.7	22.3	0.3	22.6
Gaming[(a)]	—	7.0	275.5	282.5	—	282.5
Other[(a)]	5.8	12.0	22.3	40.1	11.2	51.3
Total	$ 115.2	$ 317.5	$ 316.7	$ 749.4	$ 26.4	$ 775.8

(a) Food and beverage, hotel, and other services furnished to customers for free as an inducement to wager or through the redemption of our customers' loyalty points are recorded at the estimated standalone selling prices in other revenue with a corresponding offset recorded as a reduction in historical pari-mutuel revenue for HRMs or gaming revenue for our casino properties. These amounts were $15.0 million for the nine months ended September 30, 2021 and $10.5 million for the nine months ended September 30, 2020.

Adjusted EBITDA by segment is comprised of the following:

	Three Months Ended September 30, 2021		
(in millions)	Live and Historical Racing	TwinSpires	Gaming
Net revenue	$ 81.5	$ 102.2	$ 185.6
Taxes and purses	(24.6)	(8.0)	(71.8)
Marketing and advertising	(2.9)	(10.6)	(3.6)
Salaries and benefits	(10.9)	(3.6)	(22.5)
Content expense	(0.5)	(47.1)	(1.2)
Selling, general and administrative expense	(3.1)	(2.2)	(7.1)
Other operating expense	(11.8)	(10.0)	(19.7)
Other income	—	—	51.0
Adjusted EBITDA	$ 27.7	$ 20.7	$ 110.7

	Three Months Ended September 30, 2020		
(in millions)	Live and Historical Racing	TwinSpires	Gaming
Net revenue	$ 71.1	$ 127.6	$ 133.7
Taxes and purses	(20.4)	(8.2)	(51.5)
Marketing and advertising	(2.7)	(6.9)	(0.6)
Salaries and benefits	(8.8)	(3.1)	(19.1)
Content expense	(0.2)	(62.7)	(1.2)
Selling, general and administrative expense	(2.8)	(3.9)	(8.2)
Other operating expense	(12.1)	(10.2)	(14.3)
Other income	—	—	35.9
Adjusted EBITDA	$ 24.1	$ 32.6	$ 74.7

Adjusted EBITDA by segment is comprised of the following:

	Nine Months Ended September 30, 2021		
(in millions)	Live and Historical Racing	TwinSpires	Gaming
Net revenue	$ 336.7	$ 338.2	$ 525.6
Taxes and purses	(95.4)	(22.7)	(201.1)
Marketing and advertising	(9.9)	(35.8)	(7.5)
Salaries and benefits	(36.2)	(9.9)	(63.0)
Content expense	(1.9)	(162.1)	(3.5)
Selling, general and administrative expense	(9.2)	(6.8)	(19.0)
Other operating expense	(39.8)	(34.6)	(52.9)
Other income	0.1	—	134.3
Adjusted EBITDA	$ 144.4	$ 66.3	$ 312.9

	Nine Months Ended September 30, 2020		
(in millions)	Live and Historical Racing	TwinSpires	Gaming
Net revenue	$ 130.5	$ 318.7	$ 318.4
Taxes and purses	(43.9)	(19.2)	(124.5)
Marketing and advertising	(4.2)	(13.3)	(6.3)
Salaries and benefits	(21.3)	(9.6)	(57.6)
Content expense	(1.0)	(154.4)	(2.6)
Selling, general and administrative expense	(5.7)	(7.0)	(18.8)
Other operating expense	(25.7)	(28.0)	(44.8)
Other income	—	0.1	57.0
Adjusted EBITDA	$ 28.7	$ 87.3	$ 120.8

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Reconciliation of Comprehensive Income (Loss) to Adjusted EBITDA:				
Net income (loss) and comprehensive income (loss) attributable to Churchill Downs Incorporated	$ 61.4	$ 43.2	$ 205.8	$ (99.0)
Net loss attributable to noncontrolling interest	—	0.1	—	0.2
Net income (loss) before noncontrolling interest	61.4	43.1	205.8	(99.2)
Loss from discontinued operations, net of tax	—	—	—	96.1
Income (loss) from continuing operations, net of tax	61.4	43.1	205.8	(3.1)
Additions:				
Depreciation and amortization	25.9	22.4	77.9	66.5
Interest expense	21.7	19.7	63.1	59.3
Income tax provision (benefit)	26.3	13.9	84.1	(5.6)
EBITDA	$ 135.3	$ 99.1	$ 430.9	$ 117.1
Adjustments to EBITDA:				
Selling, general and administrative:				
Stock-based compensation expense	$ 7.8	$ 6.9	$ 20.4	$ 17.3
Other charges	—	0.8	0.2	0.7
Pre-opening expense and other expense	1.7	6.2	3.8	9.8
Asset impairments	—	—	11.2	17.5
Transaction expense, net	2.0	0.5	2.1	1.0
Other income, expense:				
Interest, depreciation and amortization expense related to equity investments	10.7	9.9	30.8	29.2
Changes in fair value of Rivers Des Plaines' interest rate swaps	(2.0)	(1.5)	(8.0)	14.7
Rivers Des Plaines' legal reserves and transaction costs	0.6	—	8.6	—
Total adjustments to EBITDA	20.8	22.8	69.1	90.2
Adjusted EBITDA	$ 156.1	$ 121.9	$ 500.0	$ 207.3
Adjusted EBITDA by segment:				
Live and Historical Racing	$ 27.7	$ 24.1	$ 144.4	$ 28.7
TwinSpires	20.7	32.6	66.3	87.3
Gaming	110.7	74.7	312.9	120.8
Total segment Adjusted EBITDA	159.1	131.4	523.6	236.8
All Other	(3.0)	(9.5)	(23.6)	(29.5)
Total Adjusted EBITDA	$ 156.1	$ 121.9	$ 500.0	$ 207.3

The table below presents information about equity in income of unconsolidated affiliates included in our reported segments:

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Gaming	$ 41.6	$ 27.6	$ 102.9	$ 13.2

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

	September 30, 2021	December 31, 2020
Total assets:		
Live and Historical Racing	$ 651.0	$ 664.1
TwinSpires	282.1	257.2
Gaming	980.9	949.3
Total segment assets	1,914.0	1,870.6
All Other	1,059.5	815.8
Total assets	$ 2,973.5	$ 2,686.4

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

	Nine Months Ended September 30,	
(in millions)	2021	2020
Capital expenditures, net:		
Live and Historical Racing	$ 32.3	$ 190.9
TwinSpires	7.9	9.6
Gaming	9.3	5.1
Total segment capital expenditures	49.5	205.6
All Other	2.6	4.5
Total capital expenditures	$ 52.1	$ 210.1

19. SUBSEQUENT EVENT

At its regularly scheduled meeting held on October 26, 2021, the Board of Directors of the Company declared an annual cash dividend of $0.667 per share, to be paid on January 7, 2022, to all shareholders of record on December 3, 2021.

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

This report contains various "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), which provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this report are made pursuant to the Act. The reader is cautioned that such forward-looking statements are based on information available at the time and / or management's good faith belief with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Forward-looking statements speak only as of the date that the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. Forward-looking statements are typically identified by the use of terms such as “anticipate,” "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "predict," "project," "seek," "should," "will," and similar words, although some forward-looking statements are expressed differently.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from expectations include the following:

- the impact of the novel coronavirus (COVID-19) pandemic, including the emergence of variant strains, and related economic matters on our results of operations, financial conditions and prospects;
- the occurrence of extraordinary events, such as terrorist attacks, public health threats, civil unrest, and inclement weather;
- the effect of economic conditions on our consumers' confidence and discretionary spending or our access to credit;
- additional or increased taxes and fees;
- the impact of significant competition, and the expectation the competition levels will increase;
- changes in consumer preferences, attendance, wagering, and sponsorships;
- loss of key or highly skilled personnel;
- lack of confidence in the integrity of our core businesses or any deterioration in our reputation;
- risks associated with equity investments, strategic alliances and other third-party agreements;
- inability to respond to rapid technological changes in a timely manner;
- concentration and evolution of slot machine manufacturing and other technology conditions that could impose additional costs;
- inability to negotiate agreements with industry constituents, including horsemen and other racetracks;
- inability to successfully expand our TwinSpires Sports and Casino business and effectively compete;
- inability to identify and complete expansion, acquisition or divestiture projects, on time, on budget or as planned;
- difficulty in integrating recent or future acquisitions into our operations;
- costs and uncertainties relating to the development of new venues and expansion of existing facilities;
- general risks related to real estate ownership and significant expenditures, including fluctuations in market values and environmental regulations;
- reliance on our technology services and catastrophic events and system failures disrupting our operations;
- online security risk, including cyber-security breaches, or loss or misuse of our stored information as a result of a breach, including customers' personal information, could lead to government enforcement actions or other litigation;
- personal injury litigation related to injuries occurring at our racetracks;
- compliance with the Foreign Corrupt Practices Act or applicable money-laundering regulations;
- payment-related risks, such as risk associated with fraudulent credit card and debit card use;
- work stoppages and labor issues;
- risks related to pending or future legal proceedings and other actions;
- highly regulated operations and changes in the regulatory environment could adversely affect our business;
- restrictions in our debt facilities limiting our flexibility to operate our business;
- failure to comply with the financial ratios and other covenants in our debt facilities and other indebtedness; and
- increase in our insurance costs, or obtain similar insurance coverage in the future, and inability to recover under our insurance policies for damages sustained at our properties in the event of inclement weather and casualty events.

The following information is unaudited. Tabular dollars are in millions, except per share amounts. All per share amounts assume dilution unless otherwise noted. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2020, including Part I - Item 1A, "Risk Factors" of our Form 10-K for a discussion regarding some of the reasons that actual results may be materially different from those we anticipate.

Our Business

Executive Overview

Churchill Downs Incorporated (the "Company," "we", "us", "our") is an industry-leading racing, online wagering and gaming entertainment company anchored by our iconic flagship event, the Kentucky Derby. We own and operate three pari-mutuel gaming entertainment venues with approximately 3,050 historical racing machines ("HRMs") in Kentucky. We also own and operate TwinSpires, one of the largest and most profitable online wagering platforms for horse racing, sports and iGaming in the U.S. and we have eight retail sportsbooks. We are also a leader in brick-and-mortar casino gaming in eight states with approximately 11,000 slot machines and video lottery terminals ("VLTs") and 200 table games. We were organized as a Kentucky corporation in 1928, and our principal executive offices are located in Louisville, Kentucky.

Segments

During the first quarter of 2021, we updated our operating segments to reflect the internal management reporting used by our chief operating decision maker to evaluate results of operations and to assess performance and allocate resources. Our internal management reporting changed primarily due to the continued growth from Oak Grove Racing, Gaming & Hotel ("Oak Grove") and Turfway Park, which opened its annex HRM facility, Newport Racing & Gaming ("Newport"), in October 2020, which resulted in our chief operating decision maker's decision to include Oak Grove, Turfway Park and Newport in the new Live and Historical Racing segment. The Live and Historical Racing segment now includes Churchill Downs Racetrack, Derby City Gaming, Oak Grove, Turfway Park, and Newport. We also realigned our retail sports betting results at our wholly-owned casinos from our Gaming segment to our TwinSpires segment. As a result of this realignment, our operating segments that meet the requirements to be disclosed separately as reportable segments are: Live and Historical Racing, TwinSpires, and Gaming. We conduct our business through these reportable segments and report net revenue and operating expense associated with these reportable segments in our condensed consolidated statements of comprehensive income (loss). The prior year results were reclassified to conform to this presentation.

Impact of COVID-19 Pandemic

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The COVID-19 global pandemic has resulted in travel limitations and business and government shutdowns which have had significant negative economic impacts in the United States and in relation to our business. Although vaccines are now available, we cannot predict the duration of the COVID-19 global pandemic. The extent to which the COVID-19 pandemic, including the emergence of variant strains, will continue to impact the Company remains uncertain and will depend on many factors that are not within our control. We will continue to monitor for new developments related to the pandemic and assess these developments to maintain continuity in our operations.

In March 2020, as a result of the COVID-19 outbreak, we temporarily suspended operations at our wholly-owned and managed and gaming properties, announced the temporary furlough of our employees at these properties and certain racing operations, and implemented a temporary salary reduction for all remaining non-furloughed salaried employees based on a percentage that varied dependent upon the amount of each employee’s salary. The most senior level of executive management received the largest salary decrease, based on both percentage and dollar amount.

In May 2020, we began to reopen our properties with patron restrictions and gaming limitations. One property temporarily suspended operations again in July 2020 and reopened in August 2020, and three properties temporarily suspended operations again in December 2020 and reopened in January 2021. The Company provided health, dental, vision and life insurance benefits to furloughed employees through July 31, 2020 and during the subsequent property closure periods.

During the second quarter of 2021, we held the 147th Kentucky Oaks and Derby with capacity restrictions in compliance with Kentucky venue limitations at that time. The capacity restrictions limited reserved seating in each area to approximately 40% to 60% capacity and also limited general admission tickets. The 146th Kentucky Oaks and Derby was held in the third quarter of 2020 without spectators.

Assets Held for Sale

On September 29, 2021, the Company announced an agreement to sell the 326-acre property in Arlington Heights, Illinois (the "Arlington Property"), which is the current home of Arlington International Racecourse ("Arlington"), to the Chicago Bears for $197.2 million. The closing of the sale of the Arlington Property is subject to the satisfaction of various closing conditions. The Company anticipates closing the sale of the Arlington Property in late 2022 or early 2023.

The Company has classified certain assets of Arlington totaling $81.5 million as held for sale as of September 30, 2021, which is included in property and equipment, net on the accompanying condensed consolidated balance sheets. Arlington’s operations and assets are included in All Other in our consolidated results.

Natural Disaster

In August 2021, Hurricane Ida caused damage to portions of Louisiana, including Fair Grounds Race Course & Slots, and 15 off-track betting facilities ("OTBs") owned by Video Services, LLC ("VSI") (collectively, "Fair Grounds and VSI"). All of the Fair Grounds and VSI operations were reopened as of September 30, 2021, with the exception of two OTBs.

The Company carries property and casualty insurance, as well as business interruption insurance subject to certain deductibles. As of September 30, 2021, the Company has recorded a reduction of property and equipment, net of $3.1 million and incurred $2.2 million in operating expenses, with an offsetting insurance recovery receivable of $5.3 million. The Company is currently working with its insurance carriers to finalize its claim. We continue to assess damages and insurance coverage, and we currently do not expect our losses to exceed the applicable insurance recoveries.

Asset Impairment

During the quarter ended June 30, 2021, the Company recorded an $11.2 million non-cash impairment charge related to certain assets at Churchill Downs Racetrack included in our Live and Historical Racing segment. The impairment was due to a change in the Churchill Downs Racetrack capital plans and the Company's planned usage of these assets.

Key Indicators to Evaluate Business Results and Financial Condition

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

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

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

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

Adjusted EBITDA excludes:

- Transaction expense, net which includes:
  - Acquisition and disposition related charges; and
  - Other transaction expense, including legal, accounting and other deal-related expense;
- Stock-based compensation expense;
- Rivers Des Plaines' impact on our investments in unconsolidated affiliates from:
  - The impact of changes in fair value of interest rate swaps; and
  - Legal reserves and transaction costs;
- Asset impairments;
- Legal reserves;
- Pre-opening expense; and
- Other charges, recoveries and expenses

For segment reporting, Adjusted EBITDA includes intercompany revenue and expense totals that are eliminated in the accompanying condensed consolidated statements of comprehensive income (loss). Refer to the reconciliation of comprehensive income to Adjusted EBITDA included in this section for additional information.

Governmental Regulations and Legislative Changes

We are subject to various federal, state, local, and international laws and regulations that affect our businesses. The ownership, operation and management of our Live and Historical Racing, TwinSpires, and Gaming segments, as well as our other operations, are subject to regulation under the laws and regulations of each of the jurisdictions in which we operate. The ownership, operation and management of our businesses and properties are also subject to legislative actions at both the federal and state level. The following update on our regulatory and legislative activities should be read in conjunction with our Annual

Report on Form 10-K for the year ended December 31, 2020, including Part I – Item 1, "Business" for a discussion of regulatory and legislative changes.

Specific State Gaming Regulations and Potential Legislative Changes

Florida

During the second quarter of 2021, the Florida Legislature passed multiple pieces of legislation, along with a 30-year tribal gaming compact, both of which will have an impact on Calder. The tribal gaming compact enables certain tribes to conduct sports betting. The tribe can have contracts with pari-mutuel facilities to operate retail and online sports betting with a revenue share for the tribe. Separately, a bill to decouple certain pari-mutuel activities, including jai alai, from gaming activities also passed. Previously, pari-mutuel facilities, including horse racing and jai alai, were required to race or conduct jai alai to retain their ability to operate slots and cardrooms. However, under this new law, jai alai facilities can operate slots and cardrooms without conducting jai alai games. The requirement to conduct racing still applies to thoroughbred race tracks if the entity's slot or cardroom licenses are connected to the entity's racing permits. Both the tribal sports betting and decoupling legislative actions went into effect when the U.S. Department of the Interior approved the compact on August 6, 2021. The tribe is still working on executing partnership deals with pari-mutuel facilities for sports betting. The Company is evaluating the impact of the decoupling legislation on our Calder operations and alternative uses, including a sale of the excess Calder land.

Louisiana

During the second quarter of 2021, the Louisiana State Legislature passed a bill that was signed by Governor Edwards to allow HRMs in off-track betting facilities. There are at least a dozen facilities operated by Fair Grounds that will be able to add up to 50 machines per location under this new law. The Louisiana Racing Commission will oversee historical horse racing.

In 2020, the Louisiana State Legislature passed a bill to allow citizens to approve sports betting on a parish-by-parish basis. Sports betting was approved in 55 of the 64 parishes. During the second quarter of 2021, the Louisiana State Legislature defined the landscape for sports betting and approved casino and racino operators to conduct retail and online sports betting in 55 parishes. The Louisiana Gaming Control Board will oversee sports betting. The tax rate is 10% on retail and 15% on mobile operations.

Maryland

In 2020, the Maryland General Assembly passed a bill to allow citizens to approve sports betting, which was approved statewide by a 67% majority during the November 2020 elections. During the second quarter of 2021, the Maryland General Assembly defined the landscape for sports betting and approved casino and racino operators to conduct retail sports betting. Other retail sports betting outlets can apply, but not within 15 miles of Ocean Downs. Ocean Downs is required to submit a bid for one of 60 online licenses. The Maryland Gaming Control Board will oversee sports betting, with a tax rate of 15%. The company has submitted its application for a retail sportsbook automatically tied to its casino license.

In 2020, local zoning changes were adopted, and in the second quarter of 2021 statutory changes were made to allow Ocean Downs to build a hotel, which had previously been obstructed.

Consolidated Financial Results

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Net revenue	$ 393.0	$ 337.8	$ 55.2	$ 1,232.4	$ 775.8	$ 456.6
Operating income (loss)	67.6	49.5	18.1	249.7	37.5	212.2
Operating income (loss) margin	17 %	15 %		20 %	5 %	
Net income (loss) from continuing operations	$ 61.4	$ 43.1	$ 18.3	$ 205.8	$ (3.1)	$ 208.9
Net income (loss) attributable to Churchill Downs Incorporated	61.4	43.2	18.2	205.8	(99.0)	304.8
Adjusted EBITDA	156.1	121.9	34.2	500.0	207.3	292.7

Three Months Ended September 30, 2021, Compared to Three Months Ended September 30, 2020

- Net revenue increased $55.2 million due to a $51.8 million increase from Gaming primarily due to certain capacity restrictions on patrons and gaming during the prior year quarter; a $15.9 million increase from Live and Historical

Racing due to the opening of the Oak Grove HRM facility in September 2020 and Newport in October 2020, as well as an increase at Derby City Gaming primarily due to certain capacity restrictions on patrons and gaming during the prior year quarter, partially offset by the running of the 147th Kentucky Oaks and Derby with capacity restrictions in the second quarter of 2021 compared to the running of the 146th Kentucky Oaks and Derby in the third quarter of 2020 without spectators; and a $12.8 million increase from All Other primarily due to an increase in handle and admissions at Arlington. Partially offsetting these increases was a $25.3 million decrease from TwinSpires primarily from the timing of the Kentucky Oaks and Derby.

- Operating income increased $18.1 million due to a $20.3 million increase from Gaming due to the increase in net revenue and increased operating efficiencies; a $9.3 million increase from Live and Historical Racing primarily due to the increase in net revenue from our HRM facilities partially offset by our decrease in net revenue at Churchill Downs Racetrack due to the timing of the Kentucky Oaks and Derby; a $6.1 million increase from All Other primarily due to the increase in net revenue from Arlington; and a $2.7 million decrease in selling, general and administrative expenses primarily due to a decrease in accrued bonuses from an adjustment to our estimated payout in the prior year quarter that did not recur. Partially offsetting these increases were an $18.8 million decrease from TwinSpires due to the decrease in net revenue from Horse Racing and additional marketing spend related to the Sports and Casino business, and a $1.5 million increase in transaction expense, net due to an increase in legal and professional expenses.
- Net income (loss) from continuing operations increased $18.3 million. The following items impacted comparability of the Company's third quarter of 2021 net income from continuing operations compared to the prior year quarter: a $3.2 million after-tax decrease in expenses related to lower transaction, pre-opening and other expenses, and a $0.3 million after-tax benefit increase related to our equity portion of the non-cash change in the fair value of Rivers Des Plaines' interest rate swaps. Partially offsetting these increases was a $0.4 million after-tax increase in Rivers Des Plaines' legal reserves and transaction costs. Excluding these items, net income (loss) from continuing operations increased $15.2 million primarily due to a $15.3 million after-tax increase driven by the results of our operations and equity in income from our unconsolidated affiliates, partially offset by a $0.1 million after-tax increase in interest expense associated with higher outstanding debt balances.
- Net income (loss) attributable to Churchill Downs Incorporated increased $18.2 million due to a $18.3 million increase in net income from continuing operations discussed above, partially offset by a $0.1 million decrease in net loss attributable to our non-controlling interest from the prior year quarter that did not recur in the current year quarter.
- Adjusted EBITDA increased $34.2 million driven by a $36.0 million increase from Gaming primarily due to the increased operating efficiencies at our wholly-owned properties and equity investments and certain capacity restrictions on patrons and gaming during the prior year quarter; a $6.5 million increase from All Other primarily due to an increase in handle and admissions at Arlington; and a $3.6 million increase from Live and Historical Racing primarily due to the opening of Oak Grove HRM facility in September 2020 and Newport in October 2020 and certain capacity restrictions on patrons and gaming during the prior year quarter at Derby City Gaming, partially offset by the timing of the Kentucky Oaks and Derby. Partially offsetting these increases was an $11.9 million decrease from TwinSpires primarily due to decrease in net revenue from Horse Racing due to the timing of the Kentucky Oaks and Derby and increased marketing and promotional activities for the Sports and Casino businesses.

Nine Months Ended September 30, 2021, Compared to Nine Months Ended September 30, 2020

- Net revenue increased $456.6 million due to a $206.6 million increase from Gaming due to the temporary suspension of operations in the prior year; a $203.6 million increase from Live and Historical Racing driven primarily from the openings of the Oak Grove HRM facility in September 2020 and Newport in October 2020, the temporary suspension of operations at Derby City Gaming during the prior year, and the running of the 147th Kentucky Oaks and Derby with capacity restrictions in the second quarter of 2021 compared to the running of the 146th Kentucky Oaks and Derby in the third quarter of 2020 without spectators; a $26.8 million increase from All Other primarily due the temporary suspension of operations in the prior year at Arlington and United Tote; and a $19.6 million increase from TwinSpires due to our expansion in additional states related to our Sports and Casino business and an increase in handle in Horse Racing.
- Operating income increased $212.2 million due to a $117.4 million increase from Gaming due to the increase in net revenue and increased operating efficiencies; a $108.2 million increase from Live and Historical Racing primarily due to the increase in net revenue; a $14.0 million increase from All Other due to the temporary suspension of operations at Arlington and United Tote in the prior year; and a $6.3 million decrease in asset impairments due to the $11.2 million non-cash asset impairment at Churchill Downs Racetrack related to revised capital plans associated with the first turn project during the current year period, offset by the $17.5 million non-cash intangible asset impairment in the first

quarter of 2020. Partially offsetting these increases were an $18.2 million decrease from TwinSpires primarily due to additional marketing spend related to the Sports and Casino business; a $14.4 million increase in selling, general and administrative expenses primarily due to an increase in accrued bonuses in the current year; and a $1.1 million increase in transaction expense, net due to an increase in legal and professional expenses.

- Net income (loss) from continuing operations increased $208.9 million. The following items impacted comparability of the Company's net income from continuing operations during the nine months ended September 30, 2021 compared to the prior year period: a $16.8 million after-tax expense decrease related to our equity portion of the non-cash change in the fair value of Rivers Des Plaines' interest rate swaps; a $4.5 million after-tax decrease in expenses related to lower transaction, pre-opening and other expenses; and a $4.1 million non-cash after-tax decrease related to asset impairments. Partially offsetting these decreases was a $6.1 million after-tax increase in Rivers Des Plaines' legal reserves and transaction costs. Excluding these items, net income (loss) from continuing operations increased $189.6 million primarily due to a $189.5 million after-tax increase driven by the results of our operations and equity in income from our unconsolidated affiliates and a $0.1 million after-tax decrease in interest expense associated with higher outstanding debt balances.

- Net income (loss) attributable to Churchill Downs Incorporated increased $304.8 million due to a $208.9 million increase in net income from continuing operations discussed above and a $96.1 million decrease in net loss from discontinued operations related to the settlement of the Kater and Thimmegowda litigations during the second quarter of 2020, partially offset by a $0.2 million decrease in net loss attributable to our noncontrolling interest.

- Adjusted EBITDA increased $292.7 million driven by a $192.1 million increase from Gaming primarily due to the increased operating efficiencies at our wholly-owned properties and equity investments and temporary suspension of operations in the prior year; a $115.7 million increase from Live and Historical Racing primarily due to the running of the 147th Kentucky Oaks and Derby with capacity restrictions in the second quarter of 2021 compared to the running of the 146th Kentucky Oaks and Derby in the third quarter of 2020 without spectators, the increased operating efficiencies and the temporary suspension of operations at Derby City Gaming in the prior year, and the opening of Oak Grove HRM facility in September 2020; and a $5.9 million increase from All Other primarily due to the temporary suspension of operations at Arlington and United Tote in the prior year. Partially offsetting these increases was a $21.0 million decrease from TwinSpires primarily due to increased marketing and promotional activities for the Horse Racing and Sports and Casino businesses.

Financial Results by Segment

Net Revenue by Segment

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

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Change	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Change
Live and Historical Racing:						
Churchill Downs Racetrack	$ 9.1	$ 42.0	$ (32.9)	$ 131.3	66.7	$ 64.6
Derby City Gaming	40.2	25.9	14.3	113.0	55.2	57.8
Oak Grove	27.1	2.4	24.7	72.1	2.4	69.7
Newport	4.3	—	4.3	13.3	—	13.3
Turfway Park	0.8	0.8	—	7.0	6.2	0.8
Total Live and Historical Racing	81.5	71.1	10.4	336.7	130.5	206.2
TwinSpires:						
Horse Racing	93.5	124.4	(30.9)	314.1	311.7	2.4
Sports and Casino	8.7	3.2	5.5	24.1	7.0	17.1
Total TwinSpires	102.2	127.6	(25.4)	338.2	318.7	19.5
Gaming:						
Fair Grounds and VSI	24.8	27.9	(3.1)	100.2	72.1	28.1
Presque Isle	36.1	27.7	8.4	90.4	56.6	33.8
Calder	26.0	6.5	19.5	74.3	34.0	40.3
Ocean Downs	31.7	24.3	7.4	78.7	42.2	36.5
Oxford	31.8	12.2	19.6	72.1	32.4	39.7
Riverwalk	14.5	15.2	(0.7)	47.3	34.6	12.7
Harlow's	13.3	12.7	0.6	43.9	29.7	14.2
Lady Luck Nemacolin	7.4	7.2	0.2	18.7	16.8	1.9
Total Gaming	185.6	133.7	51.9	525.6	318.4	207.2
All Other	29.8	17.2	12.6	63.4	35.4	28.0
Eliminations	(6.1)	(11.8)	5.7	(31.5)	(27.2)	(4.3)
Net Revenue	$ 393.0	$ 337.8	$ 55.2	$ 1,232.4	$ 775.8	$ 456.6

Three Months Ended September 30, 2021, Compared to Three Months Ended September 30, 2020

- Live and Historical Racing revenue increased $10.4 million due to a $24.7 million increase at Oak Grove as a result of the opening of the HRM facility in September 2020 and the hotel in October 2020; a $14.3 million increase at Derby City Gaming primarily due to certain capacity restrictions on patrons and gaming during the prior year quarter and the completion of their second outdoor patio which added an additional 225 HRMs in September 2020; and a $4.3 million increase at Newport due to the opening of the facility in October 2020. Partially offsetting these increases was a $32.9 million decrease at Churchill Downs Racetrack primarily due to the running of the 147th Kentucky Oaks and Derby with capacity restrictions in the second quarter of 2021 compared to the running of the 146th Kentucky Oaks and Derby in the third quarter of 2020 without spectators.
- TwinSpires revenue decreased $25.4 million from the prior year quarter primarily due to a $30.9 million decrease from Horse Racing that was partially offset by a $5.5 million increase from Sports and Casino. Horse Racing net revenue decreased as a result of lower handle primarily due to the timing of the Kentucky Oaks and Derby. Sports and Casino net revenue increased as a result of our expansion in additional states and marketing and promotional activities.
- Gaming revenue increased $51.9 million due to certain capacity restrictions on patrons and gaming during the prior year quarter. Net revenue increased for all Gaming properties except for Riverwalk and Fair Grounds and VSI. Fair Grounds and VSI were negatively impacted by Hurricane Ida in August 2021, resulting in a temporary closure of Fair Grounds Race Course & Slots and OTBs.

- All Other revenue increased $12.6 million primarily due to an $11.5 million increase at Arlington due to an increase in handle and admissions, and a $1.1 million increase at United Tote primarily due to an increase in equipment sales.

Nine Months Ended September 30, 2021, Compared to Nine Months Ended September 30, 2020

- Live and Historical Racing revenue increased $206.2 million due to a $69.7 million increase at Oak Grove as a result of the opening of the HRM facility in September 2020 and the hotel in October 2020; a $64.6 million increase at Churchill Downs Racetrack primarily due to the running of the 147th Kentucky Oaks and Derby with capacity restrictions compared to the running of the 146th Kentucky Oaks and Derby without spectators; a $57.8 million increase at Derby City Gaming primarily due to the temporary suspension of operations during the prior year and the completion of their second outdoor patio which added an additional 225 HRMs in September 2020; a $13.3 million increase at Newport due to the opening in October 2020; and a $0.8 million increase at Turfway Park primarily due to the temporary suspension of operations during the prior year period.
- TwinSpires revenue increased $19.5 million from the prior year period primarily due to a $17.1 million increase from Sports and Casino and a $2.4 million increase from Horse Racing. Sports and Casino net revenues increased as a result of our expansion in additional states and marketing and promotional activities. Horse Racing net revenue increased as a result of an increase in handle compared to the prior year due to the continued shift from wagering at brick-and-mortar locations to online wagering.
- Gaming revenue increased $207.2 million primarily due to the temporary suspension of operations of all of our Gaming properties and the loss of revenue at each property during the prior year.
- All Other revenue increased $28.0 million primarily due to a $23.1 million increase at Arlington and a $4.7 million increase at United Tote, both of which were due to the temporary suspension of operations in the prior year period, and a $0.2 million increase from other sources.

Consolidated Operating Expense

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Taxes and purses	$ 109.3	$ 81.1	$ 28.2	$ 331.1	$ 193.4	$ 137.7
Content expense	44.6	53.9	(9.3)	141.8	134.8	7.0
Salaries and benefits	43.4	37.4	6.0	125.8	103.6	22.2
Selling, general and administrative expense	36.1	38.8	(2.7)	99.7	85.3	14.4
Depreciation and amortization	25.9	22.4	3.5	77.9	66.5	11.4
Marketing and advertising	17.4	11.7	5.7	53.6	25.3	28.3
Asset impairments	—	—	—	11.2	17.5	(6.3)
Transaction expense, net	2.0	0.5	1.5	2.1	1.0	1.1
Other operating expense	46.7	42.5	4.2	139.5	110.9	28.6
Total expense	$ 325.4	$ 288.3	$ 37.1	$ 982.7	$ 738.3	$ 244.4

Three Months Ended September 30, 2021, Compared to Three Months Ended September 30, 2020

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses increased $28.2 million primarily driven by the increase in net revenue by our wholly-owned gaming properties and the opening of the Oak Grove HRM facility in September 2020 and Newport in October 2020.
- Content expense decreased $9.3 million primarily due to the running of the 147th Kentucky Oaks and Derby in the second quarter of 2021 compared to the running of the 146th Kentucky Oaks and Derby in the third quarter of 2020.
- Salaries and benefits expense increased $6.0 million driven by certain capacity restrictions on patrons and gaming during the prior year quarter, and the opening of the Oak Grove HRM facility in September 2020 and Newport in October 2020, partially offset by the timing of the Kentucky Oaks and Derby.
- Selling, general and administrative expense decreased $2.7 million driven primarily from a decrease in accrued bonus from an adjustment to the estimated annual payout in the prior year quarter that did not recur.

- Depreciation and amortization increased $3.5 million primarily driven by the opening of the Oak Grove HRM facility in September 2020 and Newport in October 2020.
- Marketing and advertising expense increased $5.7 million primarily due to increased marketing by our TwinSpires Sports and Casino businesses and for our Gaming segment as operations have returned to full capacity, partially offset by the timing of the Kentucky Oaks and Derby.
- Transaction expense, net increased $1.5 million primarily due to increased legal and professional expenses.
- Other operating expenses include maintenance, utilities, food and beverage costs, property taxes, insurance, and other operating expenses. Other operating expense increased $4.2 million primarily driven by certain capacity restrictions on patrons and gaming during the prior year quarter and the opening of Oak Grove HRM facility in September 2020 and Newport in October 2020.

Nine Months Ended September 30, 2021, Compared to Nine Months Ended September 30, 2020

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses increased $137.7 million driven by the temporary suspension of operations in the prior year, and the opening of the Oak Grove HRM facility in September 2020 and Newport in October 2020.
- Content expense increased $7.0 million primarily due to an increase in certain host fees and source market fees for the TwinSpires Horse Racing business.
- Salaries and benefits expense increased $22.2 million driven by the temporary suspension of operations in the prior year, and the opening of the Oak Grove HRM facility in September 2020 and Newport in October 2020.
- Selling, general and administrative expense increased $14.4 million driven primarily from an increase in our accrued bonuses in the current year compared to the prior year due to the temporary suspension of operations in the prior year.
- Depreciation and amortization increased $11.4 million primarily driven by the opening of the Oak Grove HRM facility in September 2020 and Newport in October 2020.
- Marketing and advertising expense increased $28.3 million primarily due to increased marketing by our TwinSpires segment, and the temporary suspension of operations in the prior year.
- Asset impairments decreased $6.3 million due to an $11.2 million non-cash impairment charge relating to the change in the Churchill Downs Racetrack first turn capital plans and the Company's planned usage of these assets, compared to a $17.5 million non-cash intangibles impairment recognized during the first quarter of 2020 that did not recur in the current year.
- Other operating expenses include maintenance, utilities, food and beverage costs, property taxes, insurance, and other operating expenses. Other operating expense increased $28.6 million primarily driven by the temporary suspension of operations at our properties during the prior year, and the opening of the Oak Grove HRM facility in September 2020 and Newport in October 2020.

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 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.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Live and Historical Racing	$ 27.7	$ 24.1	$ 3.6	$ 144.4	$ 28.7	$ 115.7
TwinSpires	20.7	32.6	(11.9)	66.3	87.3	(21.0)
Gaming	110.7	74.7	36.0	312.9	120.8	192.1
Total Segment Adjusted EBITDA	159.1	131.4	27.7	523.6	236.8	286.8
All Other	(3.0)	(9.5)	6.5	(23.6)	(29.5)	5.9
Total Adjusted EBITDA	$ 156.1	$ 121.9	$ 34.2	$ 500.0	$ 207.3	$ 292.7

Three Months Ended September 30, 2021, Compared to Three Months Ended September 30, 2020

- Live and Historical Racing Adjusted EBITDA increased $3.6 million due to a $9.6 million increase at Oak Grove due to the opening of the Oak Grove HRM facility in September 2020 and an $8.7 million increase at Derby City Gaming due to the increase in net revenue and increased operating efficiencies. Partially offsetting these increases was a $14.7 million decrease at Churchill Downs Racetrack primarily due to the running of the 147th Kentucky Oaks and Derby with capacity restrictions in the second quarter of 2021 compared to the running of the 146th Kentucky Oaks and Derby in the third quarter of 2020 without spectators.
- TwinSpires Adjusted EBITDA decreased $11.9 million primarily due to a $6.8 million increase in the loss from our Sports and Casino business due to increased marketing and promotional activities and a $5.1 million decrease from Horse Racing primarily due to the timing of the Kentucky Oaks and Derby.
- Gaming Adjusted EBITDA increased $36.0 million driven by a $20.9 million increase at our wholly-owned Gaming properties and a $15.1 million increase from our equity investments, both of which were due to increased operating efficiencies and certain capacity restrictions on patrons and gaming during the prior year quarter.
- All Other Adjusted EBITDA increased $6.5 million driven by a $5.9 million increase at Arlington due to an increase in handle and admissions, a $0.5 million increase at United Tote due to the increase in net revenue, and a $0.1 million increase from Corporate.

Nine Months Ended September 30, 2021, Compared to Nine Months Ended September 30, 2020

- Live and Historical Racing Adjusted EBITDA increased $115.7 million due to a $50.8 million increase from Churchill Downs Racetrack primarily due to the running of the 147th Kentucky Oaks and Derby with capacity restrictions compared to the running of the 146th Kentucky Oaks and Derby without spectators; a $36.9 million increase from Derby City Gaming due to the increase in net revenue, increased operating efficiencies, and the temporary suspension of operations during the prior year; a $25.6 million increase at Oak Grove due to the opening of the Oak Grove HRM facility in September 2020; a $1.7 million increase at Newport due to the opening of the Newport facility in October 2020; and a $0.7 million increase at Turfway Park primarily due to an increase in handle and the temporary suspension of operations in the prior year.
- TwinSpires Adjusted EBITDA decreased $21.0 million primarily due to a $17.5 million increase in the loss from our Sports and Casino business due to increased marketing and promotional activities and a $3.5 million decrease from Horse Racing due to increased marketing and advertising expense.
- Gaming Adjusted EBITDA increased $192.1 million driven by a $114.8 million increase at our wholly-owned Gaming properties and a $77.3 million increase from our equity investments, both of which were due to increased operating efficiencies and the temporary closure of all of our Gaming properties in the prior year.

- All Other Adjusted EBITDA increased $5.9 million driven by a $12.1 million increase from Arlington due to increased operating efficiencies and the temporary suspension of operations in the prior year and a $2.3 million increase at United Tote due to the temporary suspension of operations during the prior year. Partially offsetting these increases was a $8.5 million decrease at Corporate primarily due to an increase in accrued bonuses.

Reconciliation of Comprehensive Income (Loss) to Adjusted EBITDA

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Net income (loss) and comprehensive income (loss) attributable to Churchill Downs Incorporated	$ 61.4	$ 43.2	$ 18.2	$ 205.8	$ (99.0)	$ 304.8
Net loss attributable to noncontrolling interest	—	0.1	(0.1)	—	0.2	(0.2)
Net income (loss) before noncontrolling interest	61.4	43.1	18.3	205.8	(99.2)	305.0
Loss from discontinued operations, net of tax	—	—	—	—	96.1	(96.1)
Income (loss) from continuing operations, net of tax	61.4	43.1	18.3	205.8	(3.1)	208.9
Additions:						
Depreciation and amortization	25.9	22.4	3.5	77.9	66.5	11.4
Interest expense	21.7	19.7	2.0	63.1	59.3	3.8
Income tax provision (benefit)	26.3	13.9	12.4	84.1	(5.6)	89.7
EBITDA	$ 135.3	$ 99.1	$ 36.2	$ 430.9	$ 117.1	$ 313.8
Adjustments to EBITDA:						
Selling, general and administrative:						
Stock-based compensation expense	$ 7.8	$ 6.9	$ 0.9	$ 20.4	$ 17.3	$ 3.1
Other charges	—	0.8	(0.8)	0.2	0.7	(0.5)
Pre-opening expense and other expense	1.7	6.2	(4.5)	3.8	9.8	(6.0)
Asset impairments	—	—	—	11.2	17.5	(6.3)
Transaction expense, net	2.0	0.5	1.5	2.1	1.0	1.1
Other income, expense:						
Interest, depreciation and amortization expense related to equity investments	10.7	9.9	0.8	30.8	29.2	1.6
Changes in fair value of Rivers Des Plaines' interest rate swaps	(2.0)	(1.5)	(0.5)	(8.0)	14.7	(22.7)
Rivers Des Plaines' legal reserves and transactions costs	0.6	—	0.6	8.6	—	8.6
Total adjustments to EBITDA	20.8	22.8	(2.0)	69.1	90.2	(21.1)
Adjusted EBITDA	$ 156.1	$ 121.9	$ 34.2	$ 500.0	$ 207.3	$ 292.7

Consolidated Balance Sheet

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

(in millions)	September 30, 2021	December 31, 2020	Change
Total assets	$ 2,973.5	$ 2,686.4	$ 287.1
Total liabilities	$ 2,634.7	$ 2,319.3	$ 315.4
Total shareholders' equity	$ 338.8	$ 367.1	$ (28.3)

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

- Total assets increased $287.1 million driven by a $248.3 million increase in cash and cash equivalents primarily due to the net proceeds from the new Term Loan B-1 and Additional 2028 Notes and the increase in operating income for the nine months ended September 30, 2021; a $24.5 million increase in investment in and advances to unconsolidated affiliates due to the Company's interest in Rivers and MVG; a $17.0 million increase in restricted cash due to increased account wagering deposits; a $14.1 million increase in accounts receivable, net primarily due to timing; and a $11.9 million increase in all other assets. Partially offsetting these increases was a $28.7 decrease in property and equipment primarily due to depreciation expense and the asset impairment at Churchill Downs Racetrack.
- Total liabilities increased $315.4 million primarily driven by a $204.2 million increase in notes payable due to proceeds from our Additional 2028 Notes; a $139.5 million increase in long-term debt due to proceeds from the new Term Loan B-1 under our Credit Agreement; a $59.6 million increase in accrued expenses and other current liabilities driven by an increase in purses payable due to timing and increased account wagering deposits with TwinSpires; a $42.0 million increase in deferred income taxes primarily driven by the payment of the Kater and Thimmegowda litigation settlements; and a $21.7 million increase in accounts payable driven by timing of payments. Partially offsetting these increases were a $124.0 million decrease in current liabilities of discontinued operations due to the payments of the Kater and Thimmegowda litigation settlements; a $24.9 million decrease in dividends payable due to the payment of our annual dividends; and a $2.7 million decrease in all other liabilities.
- Total shareholders’ equity decreased $28.3 million driven by $243.9 million in repurchases of common stock and a $12.9 million decrease in taxes paid related to net share settlement of stock awards. Partially offsetting these decreases were a $205.8 million increase from current year net income, a $20.4 million increase from stock-based compensation, and a $2.3 million increase from other sources.

Liquidity and Capital Resources

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

(in millions)	Nine Months Ended September 30,		
Cash flows from:	2021	2020	Change
Operating activities	$ 391.0	$ 138.6	$ 252.4
Investing activities	$ (55.2)	$ (212.8)	$ 157.6
Financing activities	$ 53.5	$ 612.6	$ (559.1)

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.

On September 29, 2021, the Board of Directors of the Company approved a common stock repurchase program of up to $500.0 million (“2021 Stock Repurchase Program”). The 2021 Stock Repurchase Program includes and is not in addition to the unspent amount remaining under the prior 2018 Stock Purchase Program authorization. Repurchases may be made at management’s discretion from time to time on the open market (either with or without a 10b5-1 plan) or through privately negotiated transactions. The repurchase program has no time limit and may be suspended or discontinued at any time. We have approximately $499.2 million of repurchase authority remaining under the 2021 Stock Repurchase Program at September 30, 2021, based on trade date.

Nine Months Ended September 30, 2021, Compared to the Nine Months Ended September 30, 2020

- Cash flows from operating activities increased $252.4 million driven by a $212.2 million increase in operating income and a $64.9 million increase in distributions from unconsolidated affiliates. Partially offsetting these increases was a $24.7 million decrease from all other operating activities. 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 decreased $157.6 million driven by a $162.1 million decrease in capital project expenditures due to reduced capital project spending in the current year compared to prior year. Partially offsetting this decrease was a $4.1 million increase in capital maintenance expenditures and a $0.4 million increase from all other investing activities.
- Cash provided by financing activities decreased $559.1 million primarily driven by a $340.0 million decrease in net borrowings from long-term debt, a $214.0 million increase in common stock repurchases, and a $5.1 million decrease from all other financing activities.

Credit Facilities and Indebtedness

The following table presents our debt outstanding:

(in millions)	September 30, 2021	December 31, 2020	Change
Term Loan B due 2024	$ 385.0	$ 388.0	$ (3.0)
Term Loan B-1 due 2028	298.5	—	298.5
Revolver	—	149.7	(149.7)
2027 Senior Notes	600.0	600.0	—
2028 Senior Notes	700.0	500.0	200.0
Total debt	1,983.5	1,637.7	345.8
Current maturities of long-term debt	7.0	4.0	3.0
Total debt, net of current maturities	1,976.5	1,633.7	342.8
Issuance costs, net of premiums and discounts	(14.5)	(15.4)	0.9
Net debt	$ 1,962.0	$ 1,618.3	$ 343.7

Credit Agreement

On December 27, 2017, we entered into a senior secured credit agreement (as amended, the "Credit Agreement") with a syndicate of lenders. The Credit Agreement provides for a $700.0 million senior secured revolving credit facility due 2024 (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 Credit Agreement is collateralized by substantially all of the wholly-owned assets of the Company.

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

On February 1, 2021, the Company entered into the Third Amendment to the Credit Agreement to increase the restricted payments capacity during the Financial Covenant Relief Period from $26.0 million to $226.0 million to accommodate a share repurchase from an affiliate of TDG. Refer to Note 9, Shareholders' Equity, of the Notes to the Condensed Consolidated Financial Statements for information regarding this transaction.

On March 17, 2021, the Company entered into the Incremental Joinder Agreement No. 1 (the "Joinder") to its Credit Agreement which provided $300.0 million in New Term Loan Commitments ("Term Loan B-1") as a new tranche of term loans under the existing Credit Agreement (as conformed to recognize the new loan), and carries a maturity date of March 17, 2028. The Term Loan B-1 bears interest at LIBOR plus 200 basis points and requires quarterly payments of 0.25% of the original $300.0 million balance. The Term Loan B-1 may be subject to additional mandatory prepayment from excess cash flow on an annual basis per the provisions of the Credit Agreement. The Company capitalized $3.5 million of debt issuance costs associated with the Joinder which are being amortized as interest expense over the 7-year term of the Term Loan B-1.

The interest rate on the Revolver on September 30, 2021 was LIBOR plus 150 basis points based on the Revolver pricing grid in the Second Amendment and the Company's net leverage ratio as of June 30, 2021. The Term Loan B and Term Loan B-1 bear interest at LIBOR plus 200 basis points.

The Credit Agreement contains certain customary affirmative and negative covenants, which include limitations on liens, investments, indebtedness, dispositions, mergers and acquisitions, the making of restricted payments, changes in the nature of business, changes in fiscal year, and transactions with affiliates. The Credit Agreement also contains financial covenants providing for the maintenance of a maximum consolidated secured net leverage ratio and maintenance of a minimum consolidated interest coverage ratio.

	Actual	Requirement
Interest coverage ratio	6.3 to 1.0	> 2.5 to 1.0
Consolidated total secured net leverage ratio	1.0 to 1.0	< 4.0 to 1.0

The Company was compliant with all applicable covenants on September 30, 2021.

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 September 30, 2021, the Company's commitment fee rate was 0.25%.

2027 Senior Notes

On March 25, 2019, we completed an offering of $600.0 million in aggregate principal amount of 5.50% Senior Unsecured Notes that mature on April 1, 2027 (the "2027 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The 2027 Senior Notes were issued at par, with interest payable on April 1st and October 1st of each year, commencing on October 1, 2019. The Company used the net proceeds from the offering to repay our outstanding balance on the Revolver portion of our Credit Agreement. In connection with the offering, we capitalized $8.9 million of debt issuance costs which are being amortized as interest expense over the term of the 2027 Senior Notes.

The 2027 Senior Notes were issued pursuant to an indenture, dated March 25, 2019 (the "2027 Indenture"), among the Company, certain subsidiaries of the Company as guarantors (the "2027 Guarantors"), and U.S. Bank National Association, as trustee. The Company may redeem some or all of the 2027 Senior Notes at any time at redemption prices set forth in the 2027 Indenture. The terms of the 2027 Indenture, among other things, limit the ability of the Company to: (i) incur additional debt and issue preferred stock; (ii) pay dividends or make other restricted payments; (iii) make certain investments; (iv) create liens; (v) allow restrictions on the ability of certain of our subsidiaries to pay dividends or make other payments; (vi) sell assets; (vii) merge or consolidate with other entities; and (viii) enter into transactions with affiliates.

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 "Existing 2028 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act, and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The Existing 2028 Senior Notes were issued at par, with interest payable on January 15th and July 15th of each year, commencing on July 15, 2018. The Company used the net proceeds from the offering to repay a portion of our $600.0 million 5.375% Senior Unsecured Notes. In connection with the offering, we capitalized $7.7 million of debt issuance costs which are being amortized as interest expense over the term of the Existing 2028 Senior Notes.

The Existing 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 "2028 Guarantors"), and U.S. Bank National Association, as trustee. The Company may redeem some or all of the Existing 2028 Senior Notes at any time at redemption prices set forth in the 2028 Indenture. The terms of the 2028 Indenture, among other things, limit the ability of the Company to: (i) incur additional debt and issue preferred stock; (ii) pay dividends or make other restricted payments; (iii) make certain investments; (iv) create liens; (v) allow restrictions on the ability of certain of our subsidiaries to pay dividends or make other payments; (vi) sell assets; (vii) merge or consolidate with other entities; and (viii) enter into transactions with affiliates.

On March 17, 2021, the Company completed an offering of $200.0 million in aggregate principal amount of 4.75% Senior Unsecured Notes that mature on January 15, 2028 (the "Additional 2028 Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act, and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The Additional 2028 Notes were offered under the indenture dated as of December 27, 2017, governing the Existing 2028 Senior Notes and form a part of the same series for purposes of the indenture. In connection with the offering, we capitalized $3.4 million of debt issuance costs which are being amortized as interest expense over the term of the Additional 2028 Notes. Upon completion of this offering, the aggregate principal amount outstanding of the Existing 2028 Notes, together with the Additional 2028 Notes (collectively the "2028 Senior Notes") is $700 million.

The Additional 2028 Notes were issued at 103.25% of the principal amount, plus interest deemed to have accrued from January 15, 2021, with interest payable on January 15th and July 15th of each year, commencing on July 15, 2021. The 2028 Senior Notes will vote as one class under the indenture governing the 2028 Senior Notes. The 3.25% premium will be amortized through interest expense, net over the term of the Additional 2028 Notes.

The Company used the net proceeds from the Additional 2028 Notes and the Term Loan B-1 (i) to repay indebtedness outstanding under our Revolving Credit Facility, (ii) to fund related transaction fees and expenses and (iii) for working capital and other general corporate purposes.

The Company may redeem some or all of the Additional 2028 Notes at any time as set forth in the 2028 Offering Memorandum.

In connection with the issuance of the Additional 2028 Notes, the Company and the 2028 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 March 17, 2021.

Contractual Obligations

Our commitments to make future payments as of September 30, 2021, are estimated as follows:

(in millions)	**October 1 to December 31, 2021**	**2022-2023**	**2024-2025**	**Thereafter**	**Total**
Term Loan B	$ 1.0	$ 8.0	$ 376.0	$ —	$ 385.0
Interest on Term Loan B[1]	2.1	16.1	7.9	—	26.1
Term Loan B-1	0.8	6.0	6.0	285.8	298.6
Interest on Term Loan B-1[1]	1.6	12.7	12.4	13.4	40.1
2027 Senior Notes	—	—	—	600.0	600.0
2028 Senior Notes	—	—	—	700.0	700.0
Interest on 2027 Senior Notes	16.5	66.0	66.0	49.5	198.0
Interest on 2028 Senior Notes	—	66.5	66.5	83.1	216.1
Operating leases	1.7	11.5	10.0	11.6	34.8
Minimum Guarantees[2]	3.1	20.4	20.8	19.0	63.3
Total	$ 26.8	$ 207.2	$ 565.6	$ 1,762.4	$ 2,562.0

(1) Interest includes the estimated contractual payments under our Credit Agreement assuming no change in the weighted average borrowing rate of 2.09% which was the rate in place as of September 30, 2021.

(2) Includes the maximum estimated exposure where we are contractually obligated to make future minimum payments.

As of September 30, 2021, we had approximately $4.0 million of tax liabilities related to unrecognized tax benefits.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

General economic trends

Our business is sensitive to consumer confidence and reductions in consumers' discretionary spending, which may result from challenging economic conditions, unemployment levels and other changes in the economy, including the impact of the COVID-19 global pandemic. The pandemic has resulted in and is expected to continue to result in significant disruptions in economic activity and financial markets. Demand for entertainment and leisure activities is sensitive to consumers' disposable incomes, which can be adversely affected by economic conditions and unemployment levels. This could result in fewer patrons visiting our racetracks, gaming and wagering facilities, and our online wagering sites and / or may impact our customers’ ability to wager with the same frequency and to maintain wagering levels.

Interest rate and credit risk

Our primary exposure to market risk relates to changes in interest rates. At September 30, 2021, we had $683.5 million outstanding under our Credit Agreement, which bears interest at variable rates. We are exposed to market risk on variable rate debt due to potential adverse changes in these rates. Assuming the outstanding balance of the debt facility remains constant, a one-percentage point increase in our variable rate would reduce net income and cash flows from operating activities by $4.9 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports that we file under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As required by the Securities and Exchange Commission Rule 13a-15(e), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2021. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following descriptions include updates since the filing of our Annual Report on Form 10-K for the year ended December 31, 2020, relating to the proceedings involving the Company. In addition to the matters described below, we are also involved in ordinary routine litigation matters which are incidental to our business. Refer to Note 16, Contingencies, to our condensed consolidated financial statements, for further information.

Kater and Thimmegowda Class Action Suits

On April 17, 2015, the Cheryl Kater v. Churchill Downs Incorporated class action lawsuit (the "Kater Litigation") was filed in the United District Court for the Western District of Washington (the "Washington District Court") alleging, among other claims, that the Company’s "Big Fish Casino" operated by the Company’s then-wholly owned mobile gaming subsidiary Big Fish Games, Inc. ("Big Fish Games") violated Washington law, including the Washington Consumer Protection Act, by facilitating unlawful gambling through virtual casino games (namely the slots, blackjack, poker, and roulette games offered through Big Fish Casino), and seeking, among other things, return of monies lost, reasonable attorney’s fees, treble damages, and injunctive relief. On January 9, 2018, the Company sold Big Fish Games to Aristocrat Technologies, Inc. ("Aristocrat"), an indirect, wholly owned subsidiary of Aristocrat Leisure Limited, an Australian corporation, pursuant to the Stock Purchase Agreement, dated as of November 29, 2017, by and among the Company, Big Fish Games and Aristocrat (the "Stock Purchase Agreement"). Pursuant to the terms of the Stock Purchase Agreement, the Company agreed to indemnify Aristocrat for the losses and expenses associated with the Kater Litigation for Big Fish Games, which is referred to in the Stock Purchase Agreement as the "Primary Specified Litigation."

After the Washington District Court dismissed the case with prejudice on November 19, 2015, the U.S. Court of Appeals for the Ninth Circuit reversed and remanded the Washington District Court’s dismissal of the complaint on March 28, 2018.

On February 11, 2019, the Manasa Thimmegowda v. Big Fish Games, Inc. class action lawsuit (the "Thimmegowda Litigation") was filed in the Washington District Court alleging, among other claims, that "Big Fish Casino," which is operated by Big Fish Games, violated Washington law, including the Washington Consumer Protection Act, and seeking, among other things, return of monies lost, reasonable attorney’s fees, injunctive relief, and treble and punitive damages.

On May 22, 2020, the parties entered into an agreement in principle to settle the Kater Litigation and the Thimmegowda Litigation. Under the terms of the settlement, which has been approved by the court: (i) a total of $155.0 million was paid into a settlement fund. The Company paid $124.0 million of the settlement; Aristocrat paid $31.0 million of the settlement; (ii) all members of the nationwide settlement class who do not exclude themselves will release all claims relating to the subject matter of the lawsuits; and (iii) Aristocrat has agreed to specifically release the Company of any and all indemnification obligations under the Stock Purchase Agreement arising from or related to the Kater Litigation and Thimmegowda Litigation, including any claims of diminution of value of Big Fish Games and any claims by any person who opts out of the proposed class settlement.

On December 14, 2020, plaintiffs filed a motion for final approval of class action settlement agreement. The Washington District Court entered an order granting final approval of class action settlement on February 11, 2021. The Company’s settlement contribution was made on March 25, 2021.

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 ("HRMs") pursuant to a license issued by KHRC would not run afoul of any criminal gaming statutes. The Family Trust Foundation of Kentucky, Inc. (the "Family Foundation") intervened, and the Court subsequently granted summary judgment to the Joint Petitioners holding that the KHRC's historical racing regulations are valid under Kentucky law. Following an appeal to the Kentucky Court of Appeals, in February 2014 the Supreme Court of Kentucky affirmed the Court’s decision that the regulations are valid under Kentucky law, but remanded the case to the Court to determine whether operation of HRMs 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 HRM manufacturers (Encore/Exacta) are pari-mutuel, and the Court set a post-trial briefing schedule for the parties. The Court ordered, on August 24, 2017, that this pending litigation directly involves only the HRMs presently in use and any future HRMs proposed by the Company would not be included in the pending case. On October 24, 2018, the Court ruled that the HRMs in question (Encore/Exacta) are a pari-mutuel system of wagering legally permitted under Kentucky law. In November 2018, the Family Foundation filed a notice of appeal and subsequently filed a motion to transfer the appeal directly to the Kentucky Supreme Court, which was granted in June 2019. On September 24, 2020, the Kentucky Supreme Court issued an opinion reversing the Court's opinion. On November 9, 2020, the KHRC and certain other defendants filed petitions for rehearing which was rejected by the Court.

On February 22, 2021, the Governor of the Commonwealth of Kentucky signed into law Senate Bill 120 which creates a statutory definition of pari-mutuel wagering that includes historical horse racing approved by the KHRC and addresses the Supreme Court of Kentucky's opinion. On remand, the Court entered final judgment on March 17, 2021, holding that the Exacta system is not a form of pari-mutuel wagering under the laws that were in effect at the time of the Kentucky Supreme Court's September 24, 2020, opinion. The Court also held that (i) the final judgment would not be applied retroactively because the associations were authorized and permitted to operate the Exacta system by the KHRC, and (ii) any prospective application of the final judgment would be subject to Senate Bill 120. On April 7, 2021, the Court denied various motions challenging the final judgment, including motions to intervene and a motion to alter, amend, or vacate filed by the Family Foundation. The Court reaffirmed its interpretation that the final judgment would not be applied retroactively and also refused to extend the final judgment to apply to games other than the Exacta system. Although the Family Foundation filed a notice of appeal of the final judgment on April 6, 2021, it moved to dismiss the appeal on September 13, 2021. The Company does not use the Exacta system in any of its historical racing machine facilities in Kentucky and does not believe that any further rulings in this case will impact its ability to operate HRM facilities in Kentucky.

Lassiter v. Kentucky Downs, LLC, et al.

On December 18, 2020, Robert and Patricia Lassiter filed a complaint against Kentucky Downs, LLC, Keeneland Association, Inc., Turfway Park, LLC, Players Bluegrass Downs, LLC, Appalachian Racing, LLC, Ellis Park Race Course, Inc., The Lexington Trots Breeders Association, Inc., and Churchill Downs Incorporated ("Defendants"). Plaintiffs allege that Defendants' HRMs constitute illegal gambling and assert that they can recover for their losses and the losses of all patrons at those facilities with HRMs over a five-year period under Kentucky Revised Statutes 372.010. The Company filed a motion to dismiss on March 31, 2021. On August 30, 2021, plaintiffs filed a Chapter 13 Bankruptcy Petition with the Western District of Kentucky, and filed a notice of automatic stay in the matter pending against the Company. The Company's motion to dismiss has been remanded until the automatic stay is lifted. The Company intends to defend this matter vigorously and believes that there are meritorious legal and factual defenses against the plaintiffs' allegations and requests for relief.

Louisiana Environmental Protection Agency Non-Compliance Issue

On December 6, 2013, we received a notice from the U.S. Environmental Protection Agency (the "EPA") regarding alleged Concentrated Animal Feeding Operations (CAFO) non-compliance at Fair Grounds Race Course. On October 21, 2019, we reached an agreement in principle, subject to final agreement and regulatory and court approval. On September 29, 2020, the EPA filed a complaint and proposed consent decree, which was agreed to by both parties. On October 5, 2021, the United States District Court for the Eastern District of Louisiana granted the EPA's unopposed motion to approve the consent decree. Pursuant to the consent decree, Fair Grounds will pay a $2.8 million penalty, which was accrued in our consolidated statement of comprehensive income for the year ended December 31, 2019, and accrued expense and other current liabilities in our accompanying condensed consolidated balance sheets at September 30, 2021 and December 31, 2020. The consent decree also requires corrective measures to ensure compliance with applicable federal laws and regulations.

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, LLC and Churchill Downs Louisiana Video Poker Company, LLC ("Fair Grounds Defendants") have collected certain monies through video draw poker devices that constitute monies earned for purse supplements and all of those supplemental purse monies have been paid to thoroughbred horsemen during Fair Grounds' live thoroughbred horse meets. La. R.S. 27:438 requires a portion of those supplemental purse monies to be paid to quarter-horse horsemen during Fair Grounds' live quarter-horse meets. The petition requested that the District Court declare that Fair Grounds Defendants violated La. R.S. 27:438, issue a permanent and mandatory injunction ordering Fair Grounds Defendants to pay all future supplements due to the plaintiff class pursuant to La. R.S. 27:438, and to pay the plaintiff class such sums as it finds to reasonably represent the value of the sums due to the plaintiff class. On August 14, 2014, the plaintiffs filed an amendment to their petition naming the Horsemen's Benevolent and Protective Association 1993, Inc. ("HBPA") as an additional defendant and alleging that HBPA is also liable to plaintiffs for the disputed purse funds. On October 9, 2014, HBPA and Fair Grounds Defendants filed exceptions to the suit, including an exception of primary jurisdiction seeking referral to the Louisiana Racing Commission. By Judgment dated November 21, 2014, the District Court granted the exception of primary jurisdiction and referred the matter to the Louisiana Racing

Commission. On January 26, 2015, the Louisiana Fourth Circuit Court of Appeals denied the plaintiffs' request for supervisory review of the Judgment. On August 24, 2015, the Louisiana Racing Commission ruled that the plaintiffs did not have standing or a right of action to pursue the case. The plaintiffs appealed this decision to the District Court, which affirmed the Louisiana Racing Commission's ruling. The plaintiffs filed an appeal of the District Court's decision with the Louisiana Fourth Circuit Court of Appeals, which reversed the Louisiana Racing Commission's ruling and remanded the matter to the Louisiana Racing Commission for further proceedings on June 13, 2018. The Louisiana Fourth Circuit Court of Appeals denied the Fair Grounds Defendants' Motion for Rehearing on July 12, 2018 and the Louisiana Supreme Court denied the Fair Grounds Defendants' Writ of Certiorari seeking review of that decision on November 14, 2018.

The parties had previously attempted to mediate the matter in October 2018 but were unsuccessful. Thereafter, the parties resumed informal settlement discussions, and, as a result, the Company established an accrual for an immaterial amount in the third quarter of 2019. The parties submitted a settlement agreement to the District Court on February 14, 2020, following the Louisiana Racing Commission's approval to transfer the matter to the District Court for approval and administration of the settlement agreement on February 12, 2020. At a hearing on February 18, 2020, the District Court granted preliminary approval of the settlement agreement and set certain deadlines relating to actions to be taken by class members. The settlement agreement requires, among other items, the Fair Grounds Defendants to (i) pay a certain out-of-pocket amount that is within the amount for which we established an accrual in the third quarter of 2019, and (ii) support legislation that allocates a specified amount of video poker purse funds to quarter horse purses for races at Fair Grounds with maximum annual payout caps that are not deemed material. On June 13, 2020, the legislation addressed in the settlement agreement was passed by the legislature and signed into law by the Governor of Louisiana. The settlement includes a release of claims against the Fair Grounds Defendants in connection with the proceeding, although individual plaintiffs may opt-out. If there are opt-out claims in excess of $50,000, the settlement will be voided, unless the parties agree to stipulate otherwise. The settlement agreement is subject to certain conditions, including court approval. After the parties entered into the settlement, legal counsel for six objecting plaintiffs filed an amended petition with the District Court. After a hearing on July 20, 2020, the District Court dismissed the amended petition. The objecting plaintiffs filed a notice of their intention to seek a writ with the Louisiana Court of Appeals for the Fourth Circuit related to the dismissal of the amended petition, which was denied. The fairness hearing with the District Court relating to the terms of the settlement agreement occurred on October 7, 2020, and November 17, 2020, and the parties have submitted post-trial briefing and proposed final judgments. Objecting plaintiffs have filed a notice of appeal of the February 2020 Order appointing class counsel certifying a class for settlement purposes. On January 28, 2021, the District Court issued a Final Order and Judgement approving the settlement. The objectors filed a notice of appeal of the January 28, 2021 Final Order and Judgment. That appeal has been consolidated with the earlier-filed appeal of the February 2020 order appointing class counsel and certifying a class for settlement purposes. On August 12, 2021, the Louisiana Court of Appeals for the Fourth Circuit granted a joint motion to expedite oral argument, which took place on October 13, 2021.

Anthony Mattera v. Robert A. Baffert, Bob Baffert Racing, Inc. and Churchill Downs Incorporated

On May 14, 2021, plaintiff Anthony Mattera filed a class action complaint in the Jefferson County Circuit Court in Louisville, Kentucky against defendants Robert A. Baffert, Bob Baffert Racing, Inc., and Churchill Downs Incorporated regarding the entry of Medina Spirit into the 147th running of the Kentucky Derby, along with the potential disqualification of Medina Spirit as the winner of Kentucky Derby 147. Plaintiff's claims against the Company include negligence, a violation of the Consumer Protection Act, and unjust enrichment, along with a claim for injunctive relief. The Company removed the case to the U.S. District Court for the Western District of Kentucky on May 21, 2021 and filed a motion to dismiss on July 7, 2021. On September 1, 2021, Plaintiff filed a notice of voluntary dismissal, without prejudice.

ITEM 1A. RISK FACTORS

There have been no material changes with respect to our risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020.

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

Issuer Purchases of Common Stock

The following table provides information with respect to shares of common stock that we repurchased during the quarter ended September 30, 2021:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in millions) (1)
Month ended July 31, 2021	786	$ 185.29	—	$ 147.1
Month ended August 31, 2021	175,730	190.90	175,730	113.6
Month ended September 30, 2021	73,029	226.55	72,580	499.2
Total	249,545	$ 201.32	248,310	

(1) On October 30, 2018, the Board of Directors of the Company approved a common stock repurchase program of up to $300.0 million ("2018 Stock Repurchase Program"). The 2018 Stock Repurchase Program was in effect until September 29, 2021 and had unused authorization of $97.9 million. On September 29, 2021, the Board of Directors of the Company approved a common stock repurchase program of up to $500.0 million ("2021 Stock Repurchase Program"). The 2021 stock repurchase program includes and is not in addition to the unspent amount remaining under the prior 2018 Stock Purchase Program authorization. The repurchase program has no time limit and may be suspended or discontinued at any time. For the three months ended September 30, 2021, we repurchased 245,132 shares of our common stock under the 2018 Stock Repurchase Program at the aggregate purchase price of $49.2 million based on trade date and we repurchased 3,178 shares of our common stock under the 2021 Stock Repurchase Program at an aggregate purchase price of $0.8 million based on trade date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

	Description
31(a)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31(b)	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32	Certification of Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Rule 13a – 14(b))**
.01.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
01.SCH	Inline XBRL Taxonomy Extension Schema Document
01.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
01.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
01.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
01.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded as Inline XBRL and contained in Exhibit 101)

*filed herewith

**furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHURCHILL DOWNS INCORPORATED

October 27, 2021	/s/ William C. Carstanjen
	William C. Carstanjen Chief Executive Officer (Principal Executive Officer)
October 27, 2021	/s/ Marcia A. Dall
	Marcia A. Dall Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT 31(a)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, William C. Carstanjen, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: October 27, 2021

/s/ William C. Carstanjen

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

EXHIBIT 31(b)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Marcia A. Dall, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: October 27, 2021

/s/ Marcia A. Dall

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

EXHIBIT 32

Certification of Chief Executive Officer and 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 Quarterly Report on Form 10-Q of Churchill Downs Incorporated (the "Company") for the quarterly period ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William C. Carstanjen, as Chief Executive Officer (Principal Executive Officer) of the Company, and Marcia A. Dall, as Executive Vice President and Chief Financial Officer (Principal Financial & Accounting Officer) of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his or her knowledge, that:

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

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

/s/ William C. Carstanjen

William C. Carstanjen
Chief Executive Officer
(Principal Executive Officer)
October 27, 2021

/s/ Marcia A. Dall

Marcia A. Dall
Executive Vice President and Chief Financial Officer
(Principal Financial & Accounting Officer)
October 27, 2021

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.