

**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, 2019

OR

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

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

Churchill Downs Incorporated

(Exact name of registrant as specified in its charter)

Kentucky

(State or other jurisdiction of incorporation or organization)

600 North Hurstbourne Parkway, Suite 400

Louisville Kentucky

(Address of Principal Executive Offices)

61-0156015

(I.R.S. Employer Identification No.)

40222

(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

Non-accelerated filer

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 16, 2019 was 39,831,864 shares.

CHURCHILL DOWNS INCORPORATED
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For the Quarter Ended September 30, 2019

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

<i>(in millions, except per common share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenue:				
Churchill Downs	\$ 31.4	\$ 10.8	\$ 234.6	\$ 167.7
Online Wagering	70.2	71.8	228.9	228.7
Gaming	178.3	110.4	524.7	330.0
All Other	26.4	28.3	60.9	63.6
Total net revenue	306.3	221.3	1,049.1	790.0
Operating expense:				
Churchill Downs	30.8	19.5	127.8	87.4
Online Wagering	52.2	49.1	159.3	152.6
Gaming	137.3	81.2	395.5	238.9
All Other	22.9	23.7	59.9	62.0
Selling, general and administrative expense	34.4	21.9	89.4	63.4
Transaction expense, net	0.9	5.4	5.0	8.9
Total operating expense	278.5	200.8	836.9	613.2
Operating income	27.8	20.5	212.2	176.8
Other income (expense):				
Interest expense, net	(18.9)	(9.9)	(52.0)	(29.2)
Equity in income of unconsolidated affiliates	14.1	9.1	27.7	24.4
Gain on Ocean Downs/Saratoga transaction	—	54.9	—	54.9
Miscellaneous, net	0.2	0.1	0.6	0.5
Total other income (expense)	(4.6)	54.2	(23.7)	50.6
Income from continuing operations before provision for income taxes	23.2	74.7	188.5	227.4
Income tax provision	(8.0)	(16.7)	(53.1)	(52.1)
Income from continuing operations, net of tax	15.2	58.0	135.4	175.3
(Loss) income from discontinued operations, net of tax	(0.4)	(1.7)	(1.9)	166.1
Net income	\$ 14.8	\$ 56.3	\$ 133.5	\$ 341.4
Net income (loss) per common share data - basic:				
Continuing operations	\$ 0.38	\$ 1.43	\$ 3.37	\$ 4.22
Discontinued operations	\$ (0.01)	\$ (0.04)	\$ (0.05)	\$ 4.00
Net income per common share data - basic	\$ 0.37	\$ 1.39	\$ 3.32	\$ 8.22
Net income (loss) per common share data - diluted:				
Continuing operations	\$ 0.37	\$ 1.42	\$ 3.33	\$ 4.19
Discontinued operations	\$ (0.01)	\$ (0.04)	\$ (0.05)	\$ 3.97
Net income per common share data - diluted	\$ 0.36	\$ 1.38	\$ 3.28	\$ 8.16
Weighted average shares outstanding:				
Basic	40.0	40.7	40.2	41.6
Diluted	40.7	41.0	40.7	41.8
Other comprehensive income:				
Foreign currency translation, net of tax	\$ —	\$ —	\$ —	\$ 0.6
Change in pension benefits, net of tax	—	0.2	—	(0.2)
Other comprehensive income	—	0.2	—	0.4
Comprehensive income	\$ 14.8	\$ 56.5	\$ 133.5	\$ 341.8

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

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>(in millions)</i>	ASSETS	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Current assets:			
Cash and cash equivalents		\$ 189.8	\$ 133.3
Restricted cash		44.0	40.0
Accounts receivable, net		35.4	28.8
Income taxes receivable		1.4	17.0
Other current assets		31.3	22.4
Total current assets		<u>301.9</u>	<u>241.5</u>
Property and equipment, net		895.2	757.5
Investment in and advances to unconsolidated affiliates		625.0	108.1
Goodwill		363.8	338.0
Other intangible assets, net		355.8	264.0
Other assets		20.8	16.1
Total assets		<u>\$ 2,562.5</u>	<u>\$ 1,725.2</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		\$ 75.8	\$ 47.0
Purses payable		26.3	15.8
Account wagering deposit liabilities		31.1	29.6
Accrued expense		124.5	89.8
Current deferred revenue		14.1	47.9
Current maturities of long-term debt		4.0	4.0
Dividends payable		—	22.5
Total current liabilities		<u>275.8</u>	<u>256.6</u>
Long-term debt, net of current maturities and loan origination fees		384.8	387.3
Notes payable, net of debt issuance costs		1,085.4	493.0
Non-current deferred revenue		17.4	21.1
Deferred income taxes		209.8	78.2
Other liabilities		38.9	15.7
Total liabilities		<u>2,012.1</u>	<u>1,251.9</u>
Commitments and contingencies			
Shareholders' equity:			
Preferred stock, no par value; 0.3 shares authorized; no shares issued or outstanding		—	—
Common stock, no par value; 150.0 shares authorized; 39.9 shares issued and outstanding at September 30, 2019 and 40.4 shares at December 31, 2018		—	—
Retained earnings		551.3	474.2
Accumulated other comprehensive loss		(0.9)	(0.9)
Total shareholders' equity		<u>550.4</u>	<u>473.3</u>
Total liabilities and shareholders' equity		<u>\$ 2,562.5</u>	<u>\$ 1,725.2</u>

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

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

<i>(in millions)</i>	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount			
Balance, December 31, 2018	40.4	\$ —	\$ 474.2	\$ (0.9)	\$ 473.3
Net income			11.6		11.6
Issuance of common stock	0.1	—			—
Repurchase of common stock	(0.3)	(4.7)	(20.3)		(25.0)
Taxes paid related to net share settlement of stock awards	(0.1)	—	(7.6)		(7.6)
Issuance of restricted stock awards, net of forfeitures	0.1	—			—
Stock-based compensation		4.7			4.7
Adoption of ASC 842			(0.3)		(0.3)
Other			0.2		0.2
Balance, March 31, 2019	40.2	—	457.8	(0.9)	456.9
Net income			107.1		107.1
Repurchase of common stock	(0.2)	(4.4)	(13.6)		(18.0)
Stock-based compensation		7.4			7.4
Other		(0.1)			(0.1)
Balance, June 30, 2019	40.0	2.9	551.3	(0.9)	553.3
Net income			14.8		14.8
Issuance of common stock	0.1	1.9			1.9
Repurchase of common stock	(0.2)	(10.4)	(14.6)		(25.0)
Taxes paid related to net share settlement of stock awards	—	—	(0.1)		(0.1)
Stock-based compensation		5.5			5.5
Other		0.1	(0.1)		—
Balance, September 30, 2019	39.9	\$ —	\$ 551.3	\$ (0.9)	\$ 550.4

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

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

<i>(in millions)</i>	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount			
Balance, December 31, 2017	46.2	\$ 7.3	\$ 634.3	\$ (1.3)	\$ 640.3
Net income			182.0		182.0
Issuance of common stock	0.1	—			—
Repurchase of common stock	(5.7)	(13.5)	(488.0)		(501.5)
Taxes paid related to net share settlement of stock awards	(0.1)	—	(12.9)		(12.9)
Issuance of restricted stock awards, net of forfeitures	0.1	—			—
Stock-based compensation		6.2			6.2
Adoption of ASC 606			29.7		29.7
Other				0.4	0.4
Balance, March 31, 2018	40.6	—	345.1	(0.9)	344.2
Net income			103.1		103.1
Issuance of common stock	0.1	—			—
Repurchase of common stock	—	(0.3)			(0.3)
Stock-based compensation		6.4			6.4
Other		(0.1)	(0.1)		(0.2)
Balance, June 30, 2018	40.7	6.0	448.1	(0.9)	453.2
Net income			56.3		56.3
Issuance of common stock	—	1.5			1.5
Stock-based compensation		3.9			3.9
Other		0.1	(0.3)		(0.2)
Balance, September 30, 2018	40.7	\$ 11.5	\$ 504.1	\$ (0.9)	\$ 514.7

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)

	2019	2018
Cash flows from operating activities:		
Net income	\$ 133.5	\$ 341.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64.3	45.8
Distributions from unconsolidated affiliates	24.7	14.4
Equity in income of unconsolidated affiliates	(27.7)	(24.4)
Stock-based compensation	17.6	16.5
Deferred income taxes	22.0	24.7
Gain on sale of Big Fish Games	—	(219.5)
Gain on Ocean Downs/Saratoga transaction	—	(54.9)
Other	2.0	(1.8)
Changes in operating assets and liabilities, net of business acquisitions and dispositions:		
Income taxes	15.5	31.2
Deferred revenue	(36.0)	(43.6)
Other assets and liabilities	44.3	5.6
Net cash provided by operating activities	<u>260.2</u>	<u>135.4</u>
Cash flows from investing activities:		
Capital maintenance expenditures	(37.7)	(19.9)
Capital project expenditures	(53.3)	(105.6)
Acquisition of businesses, net of cash acquired	(172.1)	13.1
Investments in and advances to unconsolidated affiliates	(410.1)	—
Distributions of capital from unconsolidated affiliates	5.8	—
Acquisition of gaming licenses	(22.1)	—
Proceeds from sale of Big Fish Games	—	970.7
Other	(1.1)	(9.4)
Net cash (used in) provided by investing activities	<u>(690.6)</u>	<u>848.9</u>
Cash flows from financing activities:		
Proceeds from borrowings under long-term debt obligations	1,236.0	129.7
Repayments of borrowings under long-term debt obligations	(639.0)	(374.7)
Repayment of Ocean Downs debt	—	(54.7)
Payment of dividends	(22.2)	(23.5)
Repurchase of common stock	(66.8)	(501.8)
Taxes paid related to net share settlement of stock awards	(7.7)	(12.9)
Debt issuance costs	(8.9)	—
Big Fish Games earnout payment	—	(31.8)
Big Fish Games deferred payment	—	(26.4)
Other	(0.5)	(3.0)
Net cash provided by (used in) financing activities	<u>490.9</u>	<u>(899.1)</u>
Net increase in cash, cash equivalents and restricted cash	<u>60.5</u>	<u>85.2</u>
Effect of exchange rate changes on cash flows	—	(0.6)
Cash, cash equivalents and restricted cash, beginning of period	173.3	85.5
Cash, cash equivalents and restricted cash, end of period	<u>\$ 233.8</u>	<u>\$ 170.1</u>

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

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

<i>(in millions)</i>	Nine Months Ended September 30,	
	2019	2018
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 40.3	\$ 26.1
Income taxes	16.1	48.0
Schedule of non-cash investing and financing activities:		
Deferred tax liability assumed from equity investment	\$ 109.6	\$ —
Property and equipment additions included in accounts payable and accrued expenses	10.2	11.4
Repurchase of common stock included in accrued expenses	3.7	—
Acquisition of Ocean Downs, net of cash acquired	—	115.2

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

1. DESCRIPTION OF BUSINESS

Basis of Presentation

The Churchill Downs Incorporated (the "Company", "we", "us", "our") financial statements are presented in conformity with the requirements of this Quarterly Report on Form 10-Q and consequently do not include all of the disclosures normally required by U.S. generally accepted accounting principles ("GAAP") or those normally made in our Annual Report on Form 10-K. The December 31, 2018 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, 2018.

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.

Segments

During the first quarter of 2019, we realigned 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 in our Churchill Downs Racetrack and Derby City Gaming business and our casino and associated racing businesses, which resulted in our chief operating decision maker's decision to realign our operating segments primarily based on the regulatory licenses governing each business. Since each of these individual businesses operates under single or interdependent licenses, each of these businesses represents an operating segment. As our TwinSpires business and online sports betting and iGaming businesses are managed together, these businesses represent an operating segment. For financial reporting purposes, we aggregate our operating segments that are similar into three reportable segments as follows:

- ***Churchill Downs***

The Churchill Downs segment includes live and historical pari-mutuel racing related revenue and expenses at Churchill Downs Racetrack and Derby City Gaming.

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

Churchill Downs Racetrack and Derby City Gaming earn commissions primarily from pari-mutuel wagering on live races at Churchill Downs and on historical races at Derby City Gaming; simulcast fees earned from other wagering sites; admissions, personal seat licenses, sponsorships, television rights, and other miscellaneous services (collectively "racing event-related services"), as well as food and beverage services.

- ***Online Wagering***

The Online Wagering segment includes the revenue and expenses for the TwinSpires business ("TwinSpires") and the online Sports Betting and iGaming business.

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

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

- ***Gaming***

The Gaming segment includes revenue and expenses for the casino properties and associated racetrack or jai alai facilities which support the casino license as applicable. 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 expenses includes the following properties:

- Calder Casino and Racing ("Calder")

Churchill Downs Incorporated
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(Unaudited)

- Fair Grounds Slots, Fair Grounds Race Course, and Video Services, LLC ("VSI") (collectively, "Fair Grounds and VSI")
- Harlow's Casino Resort and Spa ("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 Downs and Casino ("Presque Isle")
- Riverwalk Casino Hotel ("Riverwalk")

The Gaming segment also includes net income for our ownership portion of the Company's equity investments in the following:

- 61.3% equity investment in Midwest Gaming Holdings, LLC ("Midwest Gaming"), the parent company of Rivers Casino Des Plaines in Des Plaines, Illinois ("Rivers Des Plaines")
- 50% equity investment in Miami Valley Gaming and Racing ("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 International Racecourse ("Arlington")
- United Tote
- Oak Grove Racing and Gaming

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. The prior year results were reclassified to conform to this presentation.

Effective January 1, 2019, the Company does not allocate corporate and other related expenses to the reportable segments in the accompanying condensed consolidated statements of comprehensive income. The prior year results in the accompanying consolidated statements of comprehensive income were reclassified to conform to this presentation.

Acquisitions of Presque Isle and Lady Luck Nemacolin

On January 11, 2019, we completed the acquisition of Presque Isle located in Erie, Pennsylvania from Eldorado Resorts, Inc. ("ERI") for cash consideration of \$178.9 million (the "Presque Isle Transaction") and \$1.6 million of working capital and other purchase price adjustments.

On March 8, 2019, the Company assumed management and acquired certain assets related to the management of Lady Luck Nemacolin in Farmington, Pennsylvania, from ERI for cash consideration of \$100,000 (the "Lady Luck Nemacolin Transaction").

Acquisition of Certain Ownership Interests of Midwest Gaming Holdings, LLC

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

The Sale Transaction was comprised of (i) the Company's purchase of 100% of the ownership stake in Midwest Gaming held by affiliates and co-investors of Clairvest Group Inc. ("Clairvest") for approximately \$291.0 million and (ii) the Company's offer to purchase, on the same terms, additional units of Midwest Gaming held by High Plains Gaming, LLC ("High Plains"), an affiliate of Rush Street Gaming, LLC, and Casino Investors, LLC ("Casino Investors") (collectively, the "Sellers"). On March 5, 2019, the Company completed the Sale Transaction.

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

Based on the results of the purchase of the Clairvest ownership stake and the purchase, on the same terms, of additional units held by High Plains and Casino Investors, the Company acquired, at the closing of the Sale Transaction, approximately 42% of

Churchill Downs Incorporated
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Midwest Gaming for aggregate cash consideration of approximately \$406.6 million. As a result of the Recapitalization on March 6, 2019, the Company's ownership of Midwest Gaming increased to 61.3%.

The total aggregate cash consideration paid for the Sale Transaction was \$410.1 million, which included \$3.5 million of certain transaction costs and working capital adjustments. We recognized a \$109.6 million deferred tax liability and a corresponding increase in our investment in unconsolidated affiliates related to an entity we acquired in conjunction with our acquisition of the Clairvest ownership.

Refer to Note 12, Investments in and Advances to Unconsolidated Affiliates, for further information on the Transactions.

Sale of Big Fish Games, Inc.

On November 29, 2017, the Company entered into a definitive Stock Purchase Agreement (the "Stock Purchase Agreement") to sell its mobile gaming subsidiary, Big Fish Games, Inc. ("Big Fish Games"), a Washington corporation, to Aristocrat Technologies, Inc. (the "Purchaser"), a Nevada corporation, an indirect, wholly owned subsidiary of Aristocrat Leisure Limited, an Australian corporation (the "Big Fish Transaction"). On January 9, 2018, pursuant to the Stock Purchase Agreement, the Company completed the Big Fish Transaction. The Purchaser paid an aggregate consideration of \$990.0 million in cash in connection with the Big Fish Transaction, subject to customary adjustments for working capital and indebtedness and certain other adjustments as set forth in the Stock Purchase Agreement. The Company received cash proceeds of \$970.7 million, which was net of \$5.2 million of working capital adjustments and \$14.1 million of transaction costs.

Big Fish Games and the related Big Fish Transaction meet the criteria for discontinued operation presentation. Accordingly, the condensed consolidated statements of comprehensive income and the notes to financial statements reflect Big Fish Games as discontinued operations for all periods presented. Unless otherwise specified, disclosures in these condensed consolidated financial statements reflect continuing operations only. The condensed consolidated statements of cash flows include both continuing and discontinued operations. Refer to Note 5, Discontinued Operations, for further information on the discontinued operations relating to the Big Fish Transaction.

Stock Split

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

Seasonality

Churchill Downs

Due to the seasonal nature of our live racing business at Churchill Downs Racetrack, revenue and operating results for any interim quarter are generally not indicative of the revenues and operating results for the year and may not be comparable with results for the corresponding period of the previous year. Historically, the majority of our live racing revenue occurs during the second quarter.

Online Wagering

Due to the seasonal nature of the racing business, revenue and operating results for any interim quarter are generally not indicative of the revenues and operating results for the year and may not be comparable with results for the corresponding period of the previous year. Historically, our revenue is higher in the second quarter with the running of the Kentucky Derby and the Kentucky Oaks.

Gaming

Revenue from the properties in our Gaming segment has a seasonal component and is typically higher during the first and second quarters.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncement - Adopted on January 1, 2019

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases, and subsequently issued additional guidance (collectively, "ASC 842"), which requires companies to generally recognize operating and financing lease liabilities and corresponding right-of-use assets ("ROUAs") on the balance

Churchill Downs Incorporated
Notes to Condensed Consolidated Financial Statements
(Unaudited)

sheet. We adopted ASC 842 on January 1, 2019 using the modified transition method. As part of the transition to ASC 842, we elected the package of practical expedients that allowed us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification of any expired or existing leases and (3) initial direct costs of any expired or existing leases. We recognized the cumulative effect of applying ASC 842 as an opening balance sheet adjustment at January 1, 2019. The comparative information has not been retrospectively adjusted and continues to be reported under the accounting standards in effect for those periods.

The adoption of ASC 842 had no impact on our accompanying condensed consolidated statements of comprehensive income or statements of cash flows. Due to the adoption of ASC 842, we recognized operating lease ROUAs and lease liabilities for our operating leases with lease terms greater than one year. We do not have any material finance leases or any material operating leases where we are the lessor.

The cumulative effects of the changes made to our accompanying condensed consolidated balance sheets as of January 1, 2019 for the adoption of ASC 842 were as follows:

<i>(in millions)</i>	As Reported at December 31, 2018	Adoption of ASC 842	Balance at January 1, 2019
ASSETS			
Other current assets	\$ 22.4	\$ (0.3)	\$ 22.1
Property and equipment, net	757.5	25.3	782.8
LIABILITIES			
Accrued expense	89.8	3.8	93.6
Other liabilities	15.7	21.5	37.2
SHAREHOLDERS' EQUITY			
Retained earnings	474.2	(0.3)	473.9

Recent Accounting Pronouncements - effective in 2020 or thereafter

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other: Internal-Use Software, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance also requires an entity to expense the capitalized implementation costs of a hosting arrangement over the term of the hosting arrangement. The guidance is effective in 2020 with early adoption permitted and may be applied prospectively or retrospectively. As this new guidance is consistent with our current accounting policies, we do not expect our future adoption of such guidance to have a material impact on our results of operations, financial condition, or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses, which introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new model will apply to: (1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, (2) loan commitments and certain other off-balance sheet credit exposures, (3) debt securities and other financial assets measured at fair value through other comprehensive income, and (4) beneficial interests in securitized financial assets. The guidance will become effective in 2020, and is to be applied through a modified retrospective approach during the year of adoption. The Company's implementation activities, which remain in progress, include identifying the financial assets in the scope of the new standard, developing methods to estimate current expected credit losses associated with these financial assets, and determining changes needed to control activities. We currently cannot estimate the financial statement impact of adoption.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment. This new guidance simplifies the accounting for goodwill impairments by removing step two from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. The new guidance is effective in 2020 with early adoption permitted for any goodwill impairment test performed between January 1, 2017 and January 1, 2020, and is to be applied prospectively. The new guidance will not result in a cumulative adjustment upon adoption and will only be applicable in the event a reporting unit's carrying amount exceeds its fair value when testing goodwill for impairment. As a result, we do not expect our future adoption of such guidance to have a material impact on our results of operations, financial condition, or cash flows.

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3. SIGNIFICANT ACCOUNTING POLICIES

Except for the accounting policy for leases, which was updated as a result of our adoption of ASC 842 on January 1, 2019, as described in Note 2, Recent Accounting Pronouncements, there have been no changes to our significant accounting policies described in the Annual Report on Form 10-K for the year ended December 31, 2018, that have had a material impact on our condensed consolidated financial statements and related notes.

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in property and equipment, net; accrued expense; and other liabilities on our condensed consolidated balance sheets. We generally do not separate lease and non-lease components for our lease contracts. We do not apply the ROUA and leases liability recognition requirements to short-term leases.

Operating lease ROUAs and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future lease payments. The operating lease ROUAs also include any lease payments made prior to commencement and exclude lease incentives and initial direct costs incurred. Our lease terms include all non-cancelable periods and may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

4. ACQUISITIONS

Presque Isle

On January 11, 2019, the Company completed the Presque Isle Transaction for a cash purchase price of \$178.9 million and \$1.6 million of working capital and other purchase price adjustments. The following table summarizes the fair values of the assets acquired and liabilities assumed, net of cash acquired of \$8.4 million, at the date of the acquisition.

	Total
<i>(in millions)</i>	
Current assets	\$ 2.1
Property and equipment	78.5
Goodwill	25.8
Intangible assets	71.2
Current liabilities	(4.9)
Non-current liabilities	(0.6)
	\$ 172.1

The fair value of the intangible assets consists of the following:

	Fair Value Recognized	Weighted-Average Useful Life
<i>(in millions)</i>		
Gaming rights	\$ 56.0	N/A
Trademark	15.2	N/A
Total intangible assets	\$ 71.2	

Current assets and current liabilities were valued at the existing carrying values as these items are short term in nature and represent management's estimated fair value of the respective items at January 11, 2019.

The property and equipment acquired primarily relates to land, buildings, equipment, and furniture and fixtures. The fair value of the land was determined using the market approach and the fair values of the remaining property and equipment were primarily determined using the cost replacement method which is based on replacement or reproduction costs of the assets.

The fair value of the Presque Isle gaming rights was determined using the Greenfield Method, which is an income approach methodology that calculates the present value of the overall business enterprise based on a projected cash flow stream. This method assumes that the gaming rights intangible asset provides the opportunity to develop a casino in a specified region, and that the present value of the projected cash flows 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

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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. The gaming rights intangible asset was assigned an indefinite useful life based on the Company's expected use of the asset and determination that no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of the gaming rights. The renewal of the gaming rights in Pennsylvania is subject to various legal requirements. However, the Company's historical experience has not indicated, nor does the Company expect, any limitations regarding its ability to continue to renew its gaming rights in Pennsylvania.

The trademark intangible asset was valued using the relief-from-royalty method of the income approach, which estimates the fair value of the intangible asset by discounting the fair value of the hypothetical royalty payments a market participant would be willing to pay to enjoy the benefits of the asset. The estimated future revenue, royalty rate, and discount rate were the primary inputs in the valuation of the trademark. The trademark was assigned an indefinite useful life based on the Company's intention to keep the Presque Isle name for an indefinite period of time.

Goodwill of \$25.8 million was recognized due to the expected contribution of Presque Isle to the Company's overall business strategy. The goodwill was assigned to the Gaming segment and is deductible for tax purposes.

For the period from the Presque Isle Transaction on January 11, 2019 through September 30, 2019, net revenue was \$105.3 million and net income was not material.

The following unaudited pro forma consolidated financial information for the Company has been prepared assuming the Company's acquisition of Presque Isle occurred as of January 1, 2018. The unaudited pro forma financial information is not necessarily indicative of either future results of operations or results of operations that might have been achieved had the acquisition been consummated as of January 1, 2018. The unaudited pro forma net income giving effect to the Presque Isle Transaction was not materially different than our historical net income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>(in millions)</i>	2018	2019	2018	2018
Net revenue	\$ 259.0	\$ 1,052.3	\$ 1,052.3	\$ 897.7

Lady Luck Nemacolin

On March 8, 2019, the Company completed the Lady Luck Nemacolin Transaction, by which the Company assumed management and acquired certain assets related to the management of Lady Luck Nemacolin from ERI for cash consideration of \$100,000. The Lady Luck Nemacolin Transaction did not meet the definition of a business and therefore was accounted for as an asset acquisition. The net assets acquired in conjunction with the Lady Luck Nemacolin Transaction were not material.

Ocean Downs

On July 16, 2018, the Company announced its entry into a tax-efficient partial liquidation agreement (the "Liquidation Agreement") for the remaining 50% ownership of the Casino at Ocean Downs and Ocean Downs Racetrack located in Berlin, Maryland ("Ocean Downs") owned by Saratoga Casino Holdings LLC ("SCH") in exchange for the Company's 25% equity interest in SCH, which is the parent company of Saratoga Casino Hotel in Saratoga Springs, New York ("Saratoga New York") and Saratoga Casino Black Hawk in Black Hawk, Colorado ("Saratoga Colorado") (collectively, the "Ocean Downs/Saratoga Transaction"). As part of the Ocean Downs/Saratoga Transaction, Saratoga Harness Racing, Inc. ("SHRI") has agreed to grant the Company and its affiliates exclusive rights to operate online sports betting and iGaming on behalf of SHRI in New York and Colorado for a period of fifteen years from the date of the Liquidation Agreement, should such states permit SHRI to engage in sports betting and iGaming, subject to payment of commercially reasonable royalties to SHRI.

On August 31, 2018, the Company completed the Ocean Downs/Saratoga Transaction, which resulted in the Company owning 100% of the equity interests of Ocean Downs. We consolidated Ocean Downs as of the transaction date. Upon the closing of the Ocean Downs/Saratoga Transaction, the Company no longer has an equity interest or management involvement in Saratoga New York or Saratoga Colorado. Prior to the Ocean Downs/Saratoga Transaction, the Company held an effective 62.5% ownership interest in Ocean Downs, and a 25% ownership interest in Saratoga New York and Saratoga Colorado, all of which were accounted for under the equity method. The consideration transferred to SCH to acquire the remaining interest in Ocean Downs was the Company's equity investments in Saratoga New York and Saratoga Colorado, which had an aggregate fair value of \$47.8 million at the acquisition date. Under the acquisition method, the fair values of the consideration transferred and the Company's equity method investment in Ocean Downs, which had a fair value of \$80.5 million at the acquisition date, were allocated to the assets acquired and liabilities assumed in the Ocean Downs/Saratoga Transaction. The Company's carrying values in these equity method investments were significantly less than the fair values, resulting in a pre-tax gain of \$54.9 million, which is included in the accompanying consolidated statements of comprehensive income. The fair value of the

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Company's equity method investments in Ocean Downs, Saratoga New York, and Saratoga Colorado was determined under the market and income valuation approaches using inputs primarily related to discounted projected cash flows and price multiples of publicly traded comparable companies.

The following unaudited pro forma consolidated financial information for the Company has been prepared assuming the Company's acquisition of the remaining 50% interest in Ocean Downs occurred as of January 1, 2018. The unaudited pro forma financial information is not necessarily indicative of either future results of operations or results of operations that might have been achieved had the acquisition been consummated as of January 1, 2018. The unaudited pro forma net income giving effect to the Ocean Downs/Saratoga Transaction was not materially different than our historical net income.

	Three Months Ended September 30,	Nine Months Ended September 30,
<i>(in millions)</i>	2018	2018
Net revenue	\$ 239.9	\$ 845.7

5. DISCONTINUED OPERATIONS

On January 9, 2018, the Company completed the Big Fish Transaction, which had a purchase price of \$990.0 million. The Company received cash proceeds of \$970.7 million, which was net of \$5.2 million of working capital adjustments and \$14.1 million of transaction costs. The Company derecognized the following upon the Big Fish Transaction:

<i>(in millions)</i>		
Cash and cash equivalents	\$	0.3
Accounts receivable		34.7
Game software development, net		6.7
Other current assets		17.0
Property and equipment, net		17.8
Game software development, net		13.8
Goodwill		530.7
Other intangible assets, net		238.4
Other assets		24.0
Accounts payable		(8.5)
Accrued expense		(22.6)
Deferred revenue		(44.2)
Deferred income taxes		(52.0)
Other liabilities		(4.9)
Carrying value of Big Fish Games	\$	751.2

The Company recognized a gain of \$219.5 million upon the sale recorded in income from discontinued operations on the condensed consolidated statement of comprehensive income for the three months ended March 31, 2018. The gain consisted of cash proceeds of \$970.7 million offset by the carrying value of Big Fish Games of \$751.2 million. The income tax provision on the gain was \$51.2 million, resulting in an after tax gain of \$168.3 million.

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

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenue	\$ —	\$ —	\$ —	\$ 13.2
Operating expenses	—	—	—	8.4
Selling, general and administrative expense	0.8	0.7	2.8	5.6
Research and development	—	—	—	0.9
Total operating expense	0.8	0.7	2.8	14.9
Operating loss	(0.8)	(0.7)	(2.8)	(1.7)
Other income (expense)				
Gain on sale of Big Fish Games	—	—	—	219.5
Other expense	—	—	—	(0.1)
Total other income	—	—	—	219.4
(Loss) income from discontinued operations before provision for income taxes	(0.8)	(0.7)	(2.8)	217.7
Income tax benefit (provision)	0.4	(1.0)	0.9	(51.6)
(Loss) income from discontinued operations, net of tax	\$ (0.4)	\$ (1.7)	\$ (1.9)	\$ 166.1

Stock-Based Compensation

For the nine months ended September 30, 2018, the Company recognized \$3.4 million of stock-based compensation expense related to Big Fish Games, which included the impact of the accelerated vesting dates of restricted stock awards held by Big Fish Games' employees in conjunction with the Big Fish Transaction.

Earnout Liabilities

As of December 31, 2017, we had \$34.2 million of deferred earnout consideration and \$28.4 million of deferred payments due to the founder of Big Fish Games, both of which were paid on January 3, 2018.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

In the first quarter of 2019, we realigned our segments as described in Note 1, Description of Business. This change resulted in the allocation of the previous Racing segment goodwill balance of \$51.7 million as follows: \$49.7 million to the Churchill Downs segment, \$1.0 million to the Gaming segment, and \$1.0 million to All Other, 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.

Goodwill, by segment, is comprised of the following:

	Churchill Downs	Online Wagering	Gaming	All Other	Total
Balances as of December 31, 2018	\$ 49.7	\$ 148.2	\$ 139.1	\$ 1.0	\$ 338.0
Additions	—	—	25.8	—	25.8
Balances as of September 30, 2019	\$ 49.7	\$ 148.2	\$ 164.9	\$ 1.0	\$ 363.8

During the first quarter of 2019, we established goodwill of \$25.8 million related to the Presque Isle Transaction.

We performed our annual goodwill impairment analysis as of April 1, 2019 and no adjustment to the carrying value of goodwill was required. We assessed goodwill for impairment by performing step one fair value calculations on a quantitative basis for each reporting unit. We concluded that the fair values of our reporting units exceeded their carrying values and therefore no impairments were identified.

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Other intangible assets are comprised of the following:

<i>(in millions)</i>	September 30, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets	\$ 31.3	\$ (13.7)	\$ 17.6	\$ 32.1	\$ (14.1)	\$ 18.0
Indefinite-lived intangible assets			338.2			246.0
Total			\$ 355.8			\$ 264.0

During 2019, we established indefinite-lived intangible assets of \$56.0 million for gaming rights and \$15.2 million for trademarks related to the Presque Isle Transaction. We also acquired indefinite-lived intangible assets of \$8.0 million for online gaming rights in Pennsylvania related to our Online Wagering operations, \$10.0 million for retail sports betting gaming rights at Presque Isle and online sports betting gaming rights in Pennsylvania, as well as \$3.0 million for other gaming rights at Presque Isle.

We performed our annual indefinite-lived intangible assets impairment analysis as of April 1, 2019, which included an assessment of qualitative and quantitative factors to determine whether it is more likely than not that the fair values of the indefinite-lived intangible assets are less than the carrying amount. We concluded that the fair values of our indefinite-lived intangible assets exceeded carrying value and therefore no impairments were identified.

7. INCOME TAXES

The Company's effective income tax rate for the three and nine months ended September 30, 2019 was higher than the U.S. federal statutory rate of 21.0% primarily due to state income taxes, certain expenses that are not deductible for purposes of income taxes, and \$2.7 million of future income tax expenses recognized from the re-measurement of our net deferred tax liabilities based on an increase in income attributable to states with higher tax rates compared to the prior period. This expense was partially offset by a decrease in our unrecognized tax positions due to the expiration of statutes of limitation and the reversal of tax benefits resulting from tax deductions from the vesting of restricted stock units in excess of book deductions.

We also recognized during the first quarter of 2019, a \$109.6 million deferred tax liability and a corresponding increase in our investment in unconsolidated affiliates related to an entity we acquired in conjunction with our acquisition of the Clairvest ownership interest in Midwest Gaming. Refer to Note 12, Investments in and Advances to Unconsolidated Affiliates, for further information.

The Company's effective income tax rate for the three and nine months ended September 30, 2018 was higher than the U.S. federal statutory rate of 21.0%, primarily due to state income taxes and certain expenses that are not deductible for income tax purposes, partially offset by tax benefits resulting from tax deductions from the vesting of restricted stock units in excess of book deductions.

8. SHAREHOLDERS' EQUITY

On October 30, 2018, the Board of Directors of the Company approved a new common stock repurchase program of up to \$300.0 million. The new program replaced the prior \$250.0 million program that was authorized in April 2017 and had unused authorization of \$78.3 million. The new authorized amount includes and is not in addition to any unspent amount remaining under the prior authorization. Repurchases may be made at management's discretion from time to time on the open market (either with or without a 10b5-1 plan) or through privately negotiated transactions. The repurchase program has no time limit and may be suspended or discontinued at any time.

For the three and nine months ended September 30, 2019, we repurchased 202,449 and 672,473 shares, respectively, of our common stock under the October 2018 stock repurchase program at an aggregate purchase price of \$25.0 million and \$68.0 million, respectively, based on trade date. We had approximately \$200.0 million of repurchase authority remaining under this program at September 30, 2019, based on trade date. As of September 30, 2019, we accrued \$3.7 million for the future cash settlement of executed repurchases of our common stock compared to \$2.5 million as of December 31, 2018.

On November 29, 2017, the Board of Directors of the Company authorized a \$500.0 million share repurchase program in a "modified Dutch auction" tender offer (the "Tender Offer") utilizing a portion of the proceeds from the Big Fish Transaction. The Company completed the Tender Offer on February 12, 2018, and repurchased 5,660,376 shares of the Company's common stock at a purchase price of \$88.33 per share with an aggregate cost of \$500.0 million, excluding fees and expenses related to the Tender Offer.

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9. STOCK-BASED COMPENSATION PLANS

We have stock-based employee compensation plans with awards outstanding under the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan, the Churchill Downs Incorporated 2016 Omnibus Stock Incentive Plan (the "2016 Plan"), and the Executive Long-Term Incentive Compensation Plan, which was adopted pursuant to the 2016 Plan. Our total stock-based compensation expense, which includes expenses related to restricted stock awards ("RSAs"), restricted stock unit awards ("RSUs"), performance share unit awards ("PSUs"), and stock options associated with our employee stock purchase plan was \$5.5 million for the three months ended September 30, 2019 and \$3.9 million for the three months ended September 30, 2018. Stock-based compensation expense was \$17.6 million for the nine months ended September 30, 2019 and \$13.1 million for the nine months ended September 30, 2018.

During the nine months ended September 30, 2019, the Company awarded RSAs to employees, RSUs and PSUs to certain named executive officers and RSUs to directors. The vesting criteria for the PSU awards granted in 2019 were based on a three year service period with two performance conditions and a market condition related to relative total shareholder return ("TSR") consistent with prior year grants. The total compensation cost we will recognize under the PSUs will be determined using the Monte Carlo valuation methodology, which factors in the value of the TSR market condition when determining the grant date fair value of the PSU. Compensation cost for each PSU is recognized during the performance and service period based on the probable achievement of the two performance criteria. The PSUs are converted into shares of our common stock at the time the PSU award value is finalized.

A summary of the RSAs, RSUs, and PSUs granted during 2019 is presented below (shares/units in thousands):

<u>Grant Year</u>	<u>Award Type</u>	<u>Number of Shares/Units Awarded</u>	<u>Vesting Terms</u>
2019	RSA	64	Vest equally over three service periods ending in 2020, 2021, and 2022
2019	RSU	55	Vest equally over three service periods ending in 2019, 2020, and 2021
2019	PSU	53	Three year performance and service period ending in 2021
2019	RSU	10	One year service period ending in 2020

10. DEBT

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 our 2017 Senior Secured credit agreement (the "2017 Credit Agreement"). In connection with the offering, we capitalized \$8.9 million of debt issuance costs which are being amortized as interest expense over the term of the 2027 Senior Notes.

The 2027 Senior Notes were issued pursuant to an indenture, dated March 25, 2019 (the "2027 Indenture"), among the Company, certain subsidiaries of the Company as guarantors (the "Guarantors"), and U.S. Bank National Association, as trustee. The Company may redeem some or all of the 2027 Senior Notes at any time prior to April 1, 2022, at a price equal to 100% of the principal amount of the 2027 Senior Notes redeemed plus an applicable make-whole premium. On or after such date, the Company may redeem some or all of the 2027 Senior Notes at redemption prices set forth in the 2027 Indenture. In addition, at any time prior to April 1, 2022, the Company may redeem up to 40% of the aggregate principal amount of the 2027 Senior Notes at a redemption price equal to 105.5% of the principal amount thereof with the net cash proceeds of one or more equity offerings provided that certain conditions are met. The terms of the 2027 Indenture, among other things, limit the ability of the Company to: (i) incur additional debt and issue preferred stock; (ii) pay dividends or make other restricted payments; (iii) make certain investments; (iv) create liens; (v) allow restrictions on the ability of certain of our subsidiaries to pay dividends or make other payments; (vi) sell assets; (vii) merge or consolidate with other entities; and (viii) enter into transactions with affiliates.

In connection with the issuance of the 2027 Senior Notes, the Company and the Guarantors entered into a Registration Rights Agreement to register any 2027 Senior Notes under the Securities Act for resale that are not freely tradable 366 days from March 25, 2019.

11. REVENUE FROM CONTRACTS WITH CUSTOMERS

Performance Obligations

As of September 30, 2019, the Churchill Downs segment had remaining performance obligations, on contracts with a duration greater than one year, with an aggregate transaction price of \$156.2 million. The revenue we expect to recognize on these remaining performance obligations is \$0.9 million for the remainder of 2019, \$44.5 million in 2020, \$34.3 million in 2021, and the remainder thereafter.

As of September 30, 2019, our remaining performance obligations in segments other than Churchill Downs were not material.

Contract Assets and Contract Liabilities

As of September 30, 2019 and December 31, 2018, contract assets were not material.

As of September 30, 2019 and December 31, 2018, contract liabilities were \$35.1 million and \$69.9 million, respectively, which are included in current deferred revenue, non-current deferred revenue, and accrued expense in the accompanying condensed consolidated balance sheets. Contract liabilities primarily relate to the Churchill Downs segment and the decrease was primarily due to revenue recognized for fulfilled performance obligations. We recognized \$1.1 million of revenue during the three months ended September 30, 2019 and \$49.6 million of revenue during the nine months ended September 30, 2019 that was included in the contract liabilities balance at December 31, 2018. We recognized \$1.2 million of revenue during the three months ended September 30, 2018 and \$51.3 million of revenue during the nine months ended September 30, 2018 that was included in the contract liabilities balance at January 1, 2018.

Disaggregation of Revenue

In Note 17, Segment Information, the Company has included its disaggregated revenue disclosures as follows:

- For the Churchill Downs segment, revenue is disaggregated between Churchill Downs Racetrack and Derby City Gaming given that Churchill Downs Racetrack's revenues primarily revolve around live racing events while Derby City Gaming's revenues primarily revolve around historical racing events. Within the Churchill Downs segment, revenue is further disaggregated between live and simulcast racing, historical racing, racing event-related services, and other services.
- For the Online Wagering segment, revenue is disaggregated between the TwinSpires business and online sports betting and iGaming business given that TwinSpires' revenue is primarily related to online pari-mutuel wagering on live race events while online sports betting and iGaming revenue relates to casino gaming service offerings. Online sports betting and iGaming service offerings are currently nominal. Within the Online Wagering segment, revenue is further disaggregated between live and simulcast racing, gaming, and other services.
- For the Gaming segment, revenue is disaggregated by location given the geographic economic factors that affect the revenue of Gaming service offerings. Within the Gaming segment, revenue is further disaggregated between live and simulcast racing, racing event-related services, gaming, and other services.

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

12. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

Midwest Gaming

On March 5, 2019, the Company completed the Sale Transaction to acquire approximately 42% of Midwest Gaming for cash consideration of approximately \$406.6 million and \$3.5 million of certain transaction costs and working capital adjustments. Following the closing of the Sale Transaction, the parties completed the Recapitalization pursuant to which Midwest Gaming used approximately \$300.0 million in proceeds from amended and extended credit facilities to redeem, on a pro rata basis, additional Midwest Gaming units held by High Plains and Casino Investors. As a result of the Recapitalization, the Company's ownership of Midwest Gaming increased to 61.3%. High Plains retained ownership of 36% of Midwest Gaming and Casino Investors retained ownership of 2.7% of Midwest Gaming.

We also recognized a \$109.6 million deferred tax liability and a corresponding increase in our investment in unconsolidated affiliates related to an entity we acquired in conjunction with our acquisition of the Clairvest ownership stake in Midwest Gaming.

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A new LLC agreement was entered into by all members as a result of the change in ownership structure. Under the new LLC agreement, both the Company and High Plains have participating rights over Midwest Gaming, and both must consent to Midwest Gaming's operating, investing and financing decisions. As a result, we account for Midwest Gaming using the equity method.

The Company's investment in Midwest Gaming is presented at our initial cost of investment plus its accumulated proportional share of income or loss, including depreciation/accretion of the difference in the historical basis of the Company's contribution, less any distributions it has received. Following the Sale Transaction and Recapitalization, the carrying value of the Company's investment in Midwest Gaming was \$841.4 million higher than the Company's underlying equity in the net assets of Midwest Gaming. This equity method basis difference was comprised of \$860.1 million related to goodwill and indefinite-lived intangible assets, \$(13.7) million related to non-depreciable land, \$(9.5) million related to buildings that will be accreted into income over a weighted average useful life of 35.3 years, and \$4.5 million related to personal property that will be depreciated over a weighted average useful life of 3.7 years. As of September 30, 2019, the net aggregate basis difference between the Company's investment in Midwest Gaming and the amounts of the underlying equity in net assets was \$840.9 million.

Summarized Financial Results for our Unconsolidated Affiliates

Summarized below are the financial results for our unconsolidated affiliates. The summarized income statement information for the three and nine months ended September 30, 2019 and summarized balance sheet information as of September 30, 2019 includes the following equity investments: MVG, Midwest Gaming from the transaction date of March 5, 2019, and two other immaterial joint ventures. The summarized income statement information for the three and nine months ended September 30, 2018 includes the following equity investments: MVG, Saratoga New York, Saratoga Colorado, Ocean Downs, and two other immaterial joint ventures. As discussed in Note 4, Acquisitions, on August 31, 2018, the Company completed the Ocean Downs/Saratoga Transaction. As such, the 2018 summarized income statement information includes the results of Ocean Downs, Saratoga New York, and Saratoga Colorado through August 31, 2018. Summarized balance sheet information as of December 31, 2018 included MVG and two other immaterial joint ventures.

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenue	\$ 160.8	\$ 105.2	\$ 416.6	\$ 322.1
Operating and SG&A expense	113.7	76.4	293.8	240.5
Depreciation and amortization	3.6	5.9	9.1	19.0
Total operating expense	117.3	82.3	302.9	259.5
Operating income	43.5	22.9	113.7	62.6
Interest and other, net	(17.6)	(1.0)	(59.9)	(5.6)
Net income	\$ 25.9	\$ 21.9	\$ 53.8	\$ 57.0

<i>(in millions)</i>	September 30, 2019		December 31, 2018	
Assets				
Current assets	\$ 59.2	\$ 24.0		
Property and equipment, net	244.0	95.7		
Other assets, net	236.2	106.7		
Total assets	\$ 539.4	\$ 226.4		
Liabilities and Members' Equity				
Current liabilities	\$ 75.1	\$ 21.2		
Long-term debt	740.5	—		
Other liabilities	25.5	—		
Members' (deficit) equity	(301.7)	205.2		
Total liabilities and members' (deficit) equity	\$ 539.4	\$ 226.4		

Churchill Downs Incorporated
Notes to Condensed Consolidated Financial Statements
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13. LEASES

Our operating leases with terms greater than one year are primarily related to buildings and land. Our operating leases with terms less than one year are primarily related to equipment. Most of our building and land leases have terms of 2 to 10 years and include one or more options to renew, with renewal terms that can extend the lease term from 1 to 5 years or more. Certain of our lease agreements include lease payments based on a percentage of net gaming revenue and others include rental payment adjustments periodically for inflation. As of September 30, 2019, operating lease ROUAs included in property and equipment, net were \$25.7 million.

The components of total lease cost were as follows:

<i>(in millions)</i>	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Short-term lease cost (a) (b)	\$ 2.7	\$ 11.4
Operating lease cost (b)	1.8	4.9
Total lease cost	<u>\$ 4.5</u>	<u>\$ 16.3</u>

(a) Includes leases with terms of one month or less

(b) Includes variable lease costs, which were not material

Other information related to operating leases was as follows:

<i>(in millions, except lease term and discount rate)</i>	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Supplemental Cash Flow Information		
Cash paid for amounts included in the measurement of lease liabilities	\$ 1.5	\$ 3.8
ROUAs obtained in exchange for lease obligations	1.5	3.0

Lease Term and Discount Rate

	September 30, 2019
Weighted average remaining lease term	6.7 years
Weighted average discount rate	3.9 %

As of September 30, 2019, future minimum operating lease payments on non-cancelable leases were as follows:

<i>(in millions)</i>	Totals
Years Ended December 31,	
2019 (excludes nine months ended September 30, 2019)	\$ 1.4
2020	5.5
2021	5.0
2022	4.0
2023	3.4
Thereafter	11.6
Total future minimum lease payments	<u>30.9</u>
Less: Imputed interest	3.7
Present value of lease liabilities	<u>\$ 27.2</u>
Reported lease liabilities as of September 30, 2019	
Accrued expense (current maturities of leases)	\$ 4.7
Other liabilities (non-current maturities of leases)	22.5
Present value of lease liabilities	<u>\$ 27.2</u>

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As required by ASC 842, the future minimum operating lease payments on non-cancelable leases as of December 31, 2018 under the accounting standards in effect as of that period were as follows:

<i>(in millions)</i>		
Years Ended December 31,		
2019	\$	5.0
2020		4.5
2021		3.8
2022		3.1
2023		3.0
Thereafter		11.2
Total	\$	30.6

14. FAIR VALUE OF ASSETS AND LIABILITIES

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

Restricted Cash

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

Debt

The fair value of the Company's 4.75% Senior Notes due 2028 (the "2028 Senior Notes") and 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 value of the Company's Senior Secured Term Loan B due 2024 (the "Term Loan B") approximates its gross carrying value as it is variable rate debt and as such is a Level 2 measurement.

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

September 30, 2019					
<i>(in millions)</i>	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Restricted cash	\$ 44.0	\$ 44.0	\$ 44.0	\$ —	\$ —
Financial liabilities:					
Term Loan B	388.8	393.0	—	393.0	—
2027 Senior Notes	591.8	635.2	—	635.2	—
2028 Senior Notes	493.6	511.3	—	511.3	—
December 31, 2018					
<i>(in millions)</i>	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Restricted cash	\$ 40.0	\$ 40.0	\$ 40.0	\$ —	\$ —
Financial liabilities:					
Term Loan B	391.3	396.0	—	396.0	—
2028 Senior Notes	493.0	452.4	—	452.4	—

15. 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.

Louisiana Environmental Protection Agency Non-Compliance Issue

On December 6, 2013, we received a notice from the United States Environmental Protection Agency ("EPA") regarding alleged CAFO non-compliance at Fair Grounds Race Course. On October 21, 2019, we reached an agreement in principal, subject to final approval. If approved, the agreement will include a \$2.8 million penalty, which is included as a selling, general and administrative expense in our accompanying condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2019, and included in accrued expense in our accompanying condensed consolidated balance sheet at September 30, 2019.

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Notes to Condensed Consolidated Financial Statements
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16. NET INCOME PER COMMON SHARE COMPUTATIONS

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

<i>(in millions, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator for basic net income per common share:				
Net income from continuing operations	\$ 15.2	\$ 58.0	\$ 135.4	\$ 175.3
Net (loss) income from discontinued operations	(0.4)	(1.7)	(1.9)	166.1
Numerator for basic net income per common share	\$ 14.8	\$ 56.3	\$ 133.5	\$ 341.4
Numerator for diluted net income from continuing operations per common share				
	\$ 15.2	\$ 58.0	\$ 135.4	\$ 175.3
Numerator for diluted net income per common share:				
	\$ 14.8	\$ 56.3	\$ 133.5	\$ 341.4
Denominator for net income per common share:				
Basic	40.0	40.7	40.2	41.6
Plus dilutive effect of stock awards	0.7	0.3	0.5	0.2
Diluted	40.7	41.0	40.7	41.8
Net income (loss) per common share data:				
Basic				
Continuing operations	\$ 0.38	\$ 1.43	\$ 3.37	\$ 4.22
Discontinued operations	\$ (0.01)	\$ (0.04)	\$ (0.05)	\$ 4.00
Net income per common share - basic	\$ 0.37	\$ 1.39	\$ 3.32	\$ 8.22
Diluted				
Continuing operations	\$ 0.37	\$ 1.42	\$ 3.33	\$ 4.19
Discontinued operations	\$ (0.01)	\$ (0.04)	\$ (0.05)	\$ 3.97
Net income per common share - diluted	\$ 0.36	\$ 1.38	\$ 3.28	\$ 8.16

17. SEGMENT INFORMATION

We manage our operations through three reportable segments: Churchill Downs, Online Wagering and Gaming. Refer to Note 1, Description of Business, for further information regarding the changes we made to our segments during the first quarter of 2019. Accordingly, prior year amounts in this Form 10-Q have been reclassified to conform to this presentation.

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, including fair value adjustments related to earnouts and deferred payments;
 - Calder racing exit costs; and

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- Other transaction expense, including legal, accounting, and other deal-related expense;
- Stock-based compensation expense;
- Midwest Gaming's impact on our investments in unconsolidated affiliates from:
 - The impact of changes in fair value of interest rate swaps; and
 - Recapitalization and transaction costs;
- Asset impairments;
- Gain on Ocean Downs/Saratoga Transaction;
- Loss on extinguishment of debt;
- 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.

Effective January 1, 2019, the Company does not allocate corporate and other related expenses to the operating segments in the accompanying condensed consolidated statements of comprehensive income. Accordingly, the prior year amounts in the accompanying consolidated statements of comprehensive income were reclassified to conform to this presentation.

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 to Adjusted EBITDA:

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<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenue from external customers:				
Churchill Downs:				
Churchill Downs Racetrack	\$ 8.9	\$ 8.5	\$ 172.2	\$ 165.4
Derby City Gaming	22.5	2.3	62.4	2.3
Total Churchill Downs	31.4	10.8	234.6	167.7
Online Wagering:				
TwinSpires	70.3	71.8	228.8	228.7
Online Sports Betting and iGaming	(0.1)	—	0.1	—
Total Online Wagering	70.2	71.8	228.9	228.7
Gaming:				
Presque Isle	38.1	—	104.9	—
Fair Grounds and VSI	25.0	24.5	93.4	88.4
Oxford	27.2	28.9	77.4	79.3
Calder	24.4	24.0	75.4	74.9
Ocean Downs	26.7	8.1	67.0	8.1
Riverwalk	13.6	12.8	44.1	40.8
Harlow's	13.3	12.1	41.9	37.9
Lady Luck Nemaquin	10.0	—	20.6	—
Saratoga	—	—	—	0.6
Total Gaming	178.3	110.4	524.7	330.0
All Other	26.4	28.3	60.9	63.6
Net revenue from external customers	\$ 306.3	\$ 221.3	\$ 1,049.1	\$ 790.0

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Intercompany net revenue:				
Churchill Downs	\$ 1.3	\$ 1.0	\$ 12.6	\$ 10.7
Online Wagering	0.2	0.3	0.9	1.1
Gaming	0.3	0.1	1.8	1.2
All Other	3.4	3.2	9.0	9.2
Eliminations	(5.2)	(4.6)	(24.3)	(22.2)
Intercompany net revenue	\$ —	\$ —	\$ —	\$ —

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Three Months Ended September 30, 2019

<i>(in millions)</i>	Churchill Downs	Online Wagering	Gaming	Total Segments	All Other	Total
Net revenue from external customers						
Pari-mutuel:						
Live and simulcast racing	\$ 5.4	\$ 67.1	\$ 6.2	\$ 78.7	\$ 15.0	\$ 93.7
Historical racing	21.3	—	—	21.3	—	21.3
Racing event-related services	1.6	—	0.8	2.4	3.1	5.5
Gaming ^(a)	—	—	153.2	153.2	—	153.2
Other ^(a)	3.1	3.1	18.1	24.3	8.3	32.6
Total	\$ 31.4	\$ 70.2	\$ 178.3	\$ 279.9	\$ 26.4	\$ 306.3

Three Months Ended September 30, 2018

<i>(in millions)</i>	Churchill Downs	Online Wagering	Gaming	Total Segments	All Other	Total
Net revenue from external customers						
Pari-mutuel:						
Live and simulcast racing	\$ 4.8	\$ 68.8	\$ 4.3	\$ 77.9	\$ 16.6	\$ 94.5
Historical racing	2.2	—	—	2.2	—	2.2
Racing event-related services	2.0	—	0.8	2.8	3.5	6.3
Gaming ^(a)	—	—	92.8	92.8	—	92.8
Other ^(a)	1.8	3.0	12.5	17.3	8.2	25.5
Total	\$ 10.8	\$ 71.8	\$ 110.4	\$ 193.0	\$ 28.3	\$ 221.3

(a) Food and beverage, hotel, and other services furnished to customers for free as an inducement to gamble or through the redemption of our customers' loyalty points are recorded at their estimated standalone selling prices in Other revenue with a corresponding offset recorded as a reduction in Gaming revenue. These amounts were \$8.9 million for the three months ended September 30, 2019 and \$6.6 million for the three months ended September 30, 2018.

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Nine Months Ended September 30, 2019

<i>(in millions)</i>	Churchill Downs	Online Wagering	Gaming	Total Segments	All Other	Total
Net revenue from external customers						
Pari-mutuel:						
Live and simulcast racing	\$ 48.1	\$ 218.7	\$ 23.9	\$ 290.7	\$ 34.7	\$ 325.4
Historical racing	58.7	—	—	58.7	—	58.7
Racing event-related services	115.0	—	3.1	118.1	5.3	123.4
Gaming ^(b)	—	0.1	442.4	442.5	—	442.5
Other ^(b)	12.8	10.1	55.3	78.2	20.9	99.1
Total	\$ 234.6	\$ 228.9	\$ 524.7	\$ 988.2	\$ 60.9	\$ 1,049.1

Nine Months Ended September 30, 2018

<i>(in millions)</i>	Churchill Downs	Online Wagering	Gaming	Total Segments	All Other	Total
Net revenue from external customers						
Pari-mutuel:						
Live and simulcast racing	\$ 45.6	\$ 219.5	\$ 19.3	\$ 284.4	\$ 38.1	\$ 322.5
Historical racing	2.2	—	—	2.2	—	2.2
Racing event-related services	111.6	—	2.9	114.5	5.7	120.2
Gaming ^(b)	—	—	267.8	267.8	—	267.8
Other ^(b)	8.3	9.2	40.0	57.5	19.8	77.3
Total	\$ 167.7	\$ 228.7	\$ 330.0	\$ 726.4	\$ 63.6	\$ 790.0

(b) Food and beverage, hotel, and other services furnished to customers for free as an inducement to gamble or through the redemption of our customers' loyalty points are recorded at their estimated standalone selling prices in Other revenue with a corresponding offset recorded as a reduction in Gaming revenue. These amounts were \$24.7 million for the nine months ended September 30, 2019 and \$19.5 million for the nine months ended September 30, 2018.

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Adjusted EBITDA by segment is comprised of the following:

<i>(in millions)</i>	Three Months Ended September 30, 2019		
	Churchill Downs	Online Wagering	Gaming
Net revenue	\$ 32.7	\$ 70.4	\$ 178.6
Taxes & purses	(10.2)	(4.4)	(71.2)
Marketing & advertising	(1.1)	(3.6)	(5.5)
Salaries & benefits	(6.8)	(3.0)	(26.6)
Content expense	(0.5)	(36.5)	(1.6)
SG&A expense	(2.1)	(1.8)	(7.9)
Other operating expense	(6.9)	(6.1)	(21.2)
Other income	0.1	—	27.1
Adjusted EBITDA	<u>\$ 5.2</u>	<u>\$ 15.0</u>	<u>\$ 71.7</u>

<i>(in millions)</i>	Three Months Ended September 30, 2018		
	Churchill Downs	Online Wagering	Gaming
Net revenue	\$ 11.8	\$ 72.1	\$ 110.5
Taxes & purses	(3.6)	(4.2)	(37.9)
Marketing & advertising	(0.6)	(0.6)	(3.6)
Salaries & benefits	(4.5)	(2.1)	(16.8)
Content expense	(0.5)	(37.3)	(0.9)
SG&A expense	(0.8)	(1.4)	(4.5)
Other operating expense	(4.6)	(5.7)	(14.8)
Other income	—	—	12.7
Adjusted EBITDA	<u>\$ (2.8)</u>	<u>\$ 20.8</u>	<u>\$ 44.7</u>

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Nine Months Ended September 30, 2019

<i>(in millions)</i>	Churchill Downs	Online Wagering	Gaming
Net revenue	\$ 247.2	\$ 229.8	\$ 526.5
Taxes & purses	(52.1)	(12.0)	(204.7)
Marketing & advertising	(5.8)	(9.1)	(15.7)
Salaries & benefits	(24.5)	(8.2)	(76.5)
Content expense	(1.8)	(120.4)	(4.5)
SG&A expense	(5.8)	(5.5)	(21.2)
Other operating expense	(28.8)	(20.5)	(62.0)
Other income	0.1	—	70.7
Adjusted EBITDA	<u>\$ 128.5</u>	<u>\$ 54.1</u>	<u>\$ 212.6</u>

Nine Months Ended September 30, 2018

<i>(in millions)</i>	Churchill Downs	Online Wagering	Gaming
Net revenue	\$ 178.4	\$ 229.8	\$ 331.2
Taxes & purses	(31.6)	(12.2)	(111.4)
Marketing & advertising	(4.1)	(4.5)	(10.7)
Salaries & benefits	(17.3)	(6.6)	(49.3)
Content expense	(1.8)	(119.3)	(2.9)
SG&A expense	(3.0)	(4.4)	(12.3)
Other operating expense	(21.6)	(19.7)	(44.2)
Other income	0.1	—	36.4
Adjusted EBITDA	<u>\$ 99.1</u>	<u>\$ 63.1</u>	<u>\$ 136.8</u>

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<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Reconciliation of Comprehensive Income to Adjusted EBITDA:				
Comprehensive income	\$ 14.8	\$ 56.5	\$ 133.5	\$ 341.8
Foreign currency translation, net of tax	—	—	—	(0.6)
Change in pension benefits, net of tax	—	(0.2)	—	0.2
Net income	14.8	56.3	133.5	341.4
Loss (income) from discontinued operations, net of tax	0.4	1.7	1.9	(166.1)
Income from continuing operations, net of tax	15.2	58.0	135.4	175.3
Additions:				
Depreciation and amortization	22.0	16.7	64.3	45.8
Interest expense	18.9	9.9	52.0	29.2
Income tax provision	8.0	16.7	53.1	52.1
EBITDA	\$ 64.1	\$ 101.3	\$ 304.8	\$ 302.4
Adjustments to EBITDA:				
Selling, general and administrative:				
Stock-based compensation expense	\$ 5.5	\$ 3.9	\$ 17.6	\$ 13.1
Legal reserves	3.3	—	3.6	—
Pre-opening expense and other expense	1.2	2.8	3.6	4.1
Transaction expense, net	0.9	5.4	5.0	8.9
Gain on Ocean Downs/Saratoga transaction	—	(54.9)	—	(54.9)
Other income, expense:				
Interest, depreciation and amortization expense related to equity investments	9.7	3.6	22.9	12.2
Changes in fair value of Midwest Gaming's interest rate swaps	3.2	—	15.4	—
Midwest Gaming's recapitalization and transactions costs	—	—	4.7	—
Other	0.1	—	—	—
Total adjustments to EBITDA	23.9	(39.2)	72.8	(16.6)
Adjusted EBITDA	\$ 88.0	\$ 62.1	\$ 377.6	\$ 285.8
Adjusted EBITDA by segment:				
Churchill Downs	\$ 5.2	\$ (2.8)	\$ 128.5	\$ 99.1
Online Wagering	15.0	20.8	54.1	63.1
Gaming	71.7	44.7	212.6	136.8
Total segment Adjusted EBITDA	91.9	62.7	395.2	299.0
All Other	(3.9)	(0.6)	(17.6)	(13.2)
Total Adjusted EBITDA	\$ 88.0	\$ 62.1	\$ 377.6	\$ 285.8

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

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Gaming	\$ 14.1	\$ 9.1	\$ 27.7	\$ 24.4

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

<i>(in millions)</i>	September 30, 2019	December 31, 2018
Total assets:		
Churchill Downs	\$ 364.5	\$ 359.6
Online Wagering	242.5	222.8
Gaming	1,606.8	877.1
Total segment assets	2,213.8	1,459.5
All Other	348.7	265.7
Total assets	\$ 2,562.5	\$ 1,725.2

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

<i>(in millions)</i>	Nine Months Ended September 30,	
	2019	2018
Capital expenditures:		
Churchill Downs	\$ 24.7	\$ 100.6
Online Wagering	7.3	7.1
Gaming	30.7	13.2
Total segment capital expenditures	62.7	120.9
All Other	28.3	4.6
Total capital expenditures	\$ 91.0	\$ 125.5

18. SUBSEQUENT EVENT

Turfway Park Acquisition

On October 3, 2019, the Company announced that it signed a definitive agreement to acquire Turfway Park in Florence, Kentucky from Jack Ohio LLC, an affiliate of JACK Entertainment LLC ("JACK") and Hard Rock International ("Hard Rock") for total consideration of \$46.0 million in cash ("Turfway Park Acquisition"), subject to certain working capital and other purchase price adjustments.

On October 9, 2019, the Company completed the Turfway Park Acquisition upon receiving the necessary approval from the Kentucky Horse Racing Commission on October 8, 2019.

The Turfway Park Acquisition was funded with the Company's cash on hand. Of the \$46.0 million total consideration, \$36.0 million (subject to working capital and other purchase price adjustments) was paid to JACK and accounted for as a business combination. The preliminary allocation of the \$36.0 million purchase price to the underlying net assets has not yet been completed. The remaining \$10.0 million was paid to Hard Rock for the assignment of the purchase and sale agreement rights and was accounted for separately from the business combination as an intangible asset and will be amortized through expense in the fourth quarter of 2019.

Annual Cash Dividend

At its regularly scheduled meeting held October 29, 2019, the Board of Directors of the Company declared an annual cash dividend of \$0.581 per share, to be paid on January 3, 2020, to all shareholders of record on December 6, 2019.

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

Information set forth in this discussion and analysis contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act. The reader is cautioned that such forward-looking statements are based on information available at the time and/or management's good faith belief with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. Forward-looking statements are typically identified by the use of terms such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "might", "plan", "predict", "project", "seek", "should", "will", and similar words, although some forward-looking statements are expressed differently.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from expectations include the following: the effect of economic conditions on our consumers' confidence and discretionary spending or our access to credit; additional or increased taxes and fees; public perceptions or lack of confidence in the integrity of our business; loss of key or highly skilled personnel; restrictions in our debt facilities limiting our flexibility to operate our business; general risks related to real estate ownership, including fluctuations in market values and environmental regulations; catastrophic events and system failures disrupting our operations; online security risk, including cyber-security breaches; inability to recover under our insurance policies for damages sustained at our properties in the event of inclement weather and casualty events; increases in insurance costs and inability to obtain similar insurance coverage in the future; inability to identify and complete acquisition, expansion or divestiture projects, on time, on budget or as planned; difficulty in integrating recent or future acquisitions into our operations; number of people attending and wagering on live horse races; inability to respond to rapid technological changes in a timely manner; inadvertent infringement of the intellectual property of others; inability to protect our own intellectual property rights; payment-related risks, such as risk associated with fraudulent credit card and debit card use; compliance with the Foreign Corrupt Practices Act or applicable money-laundering regulations; work stoppages and labor issues; difficulty in attracting a sufficient number of horses and trainers for full field horseraces; inability to negotiate agreements with industry constituents, including horsemen and other racetracks; personal injury litigation related to injuries occurring at our racetracks; our inability to utilize and provide totalisator services; weather conditions affecting our ability to conduct live racing; increased competition in the horseracing business; changes in the regulatory environment of our racing operations; changes in regulatory environment of our online horseracing business; increase in competition in our online horseracing; uncertainty and changes in the legal landscape relating to our online wagering business; continued legalization of online sports betting and iGaming in the United States and our ability to predict and capitalize on any such legalization; inability to expand our sports betting operations and effectively compete; failure to comply with laws requiring us to block access to certain individuals could result in penalties or impairment with respect to our mobile and online wagering products; increased competition in our casino business; changes in regulatory environment of our casino business; development and expansion of casinos is costly and susceptible to delays, cost overruns and other uncertainties; and concentration and evolution of slot machine manufacturing and other technology conditions that could impose additional costs.

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, 2018, including Part I - Item 1A, "Risk Factors" of our Form 10-K for a discussion regarding some of the reasons that actual results may be materially different from those we anticipate.

Our Business

Executive Overview

We are an industry-leading racing, online wagering and gaming entertainment company anchored by our iconic flagship event - *The Kentucky Derby*. We own and operate Derby City Gaming, a historical racing machine facility in Louisville, Kentucky. We also own and operate the largest legal online horseracing wagering platform in the U.S., TwinSpires.com, and are a leader in brick-and-mortar casino gaming with approximately 11,000 slot machines and video lottery terminals ("VLTs") and 200 table games in eight states. We also operate sports wagering and iGaming through our BetAmerica platform in multiple states. 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 2019, we realigned 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. Refer to Note 1, Description of Business, to our condensed consolidated financial statements for further information. For financial reporting purposes, we aggregate our operating segments into three reportable segments as follows:

- **Churchill Downs**

The Churchill Downs segment includes live and historical pari-mutuel racing related revenue and expenses at Churchill Downs Racetrack and Derby City Gaming.

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

Churchill Downs Racetrack and Derby City Gaming earn commissions primarily from pari-mutuel wagering on live races at Churchill Downs and on historical races at Derby City Gaming; simulcast fees earned from other wagering sites; admissions, personal seat licenses, sponsorships, television rights, and other miscellaneous services (collectively "racing event-related services"), as well as food and beverage services.

- **Online Wagering**

The Online Wagering segment includes the revenue and expenses for the TwinSpires business ("TwinSpires") and the online Sports Betting and iGaming business.

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

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

- **Gaming**

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

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

- Calder Casino and Racing ("Calder")
- Fair Grounds Slots, Fair Grounds Race Course, and Video Services, LLC ("VSI") (collectively, "Fair Grounds and VSI")
- Harlow's Casino Resort and Spa ("Harlow's")
- Lady Luck Casino Nemaquin ("Lady Luck Nemaquin") management agreement
- Ocean Downs Casino and Racetrack ("Ocean Downs")
- Oxford Casino and Hotel ("Oxford")
- Presque Isle Downs and Casino ("Presque Isle")
- Riverwalk Casino Hotel ("Riverwalk")

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

- 61.3% equity investment in Midwest Gaming Holdings, LLC ("Midwest Gaming"), the parent company of Rivers Casino Des Plaines in Des Plaines, Illinois ("Rivers Des Plaines")
- 50% equity investment in Miami Valley Gaming and Racing ("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 International Race Course ("Arlington")
- United Tote
- Oak Grove Racing and Gaming

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. The prior year results were reclassified to conform to this presentation.

Effective January 1, 2019, the Company does not allocate corporate and other related expenses to the operating segments in the accompanying condensed consolidated statements of comprehensive income. The prior year results in the accompanying consolidated statements of comprehensive income were reclassified to conform to this presentation.

Acquisitions of Presque Isle and Lady Luck Nemacolin

On January 11, 2019, we completed the acquisition of Presque Isle located in Erie, Pennsylvania from Eldorado Resorts, Inc. ("ERI") for cash consideration of \$178.9 million (the "Presque Isle Transaction") and \$1.6 million of working capital and other purchase price adjustments.

On March 8, 2019, the Company assumed management and acquired certain assets related to the management of Lady Luck Nemacolin in Farmington, Pennsylvania, from ERI for cash consideration of \$100,000 (the "Lady Luck Nemacolin Transaction").

Acquisition of Certain Ownership Interests of Midwest Gaming Holdings, LLC

On March 5, 2019, the Company completed the acquisition of certain ownership interests of Midwest Gaming, the parent company of Rivers Des Plaines (the "Sale Transaction") to acquire approximately 42% of Midwest Gaming for cash consideration of approximately \$406.6 million and \$3.5 million of certain transaction costs and working capital adjustments. Following the closing of the Sale Transaction, the parties completed a recapitalization transaction (the "Recapitalization") pursuant to which Midwest Gaming used approximately \$300.0 million in proceeds from amended and extended credit facilities to redeem, on a pro rata basis, additional Midwest Gaming units held by High Plains Gaming, LLC ("High Plains"), an affiliate of Rush Street Gaming, LLC, and Casino Investors, LLC ("Casino Investors"). As a result of the Recapitalization, the Company's ownership of Midwest Gaming increased to 61.3%. High Plains retained ownership of 36% of Midwest Gaming and Casino Investors retained ownership of 2.7% of Midwest Gaming.

We also recognized a \$109.6 million deferred tax liability and a corresponding increase in our investment in unconsolidated affiliates related to an entity we acquired in conjunction with our acquisition of the Clairvest ownership stake in Midwest Gaming.

Refer to Note 12, Investments in and Advances to Unconsolidated Affiliates, to our condensed consolidated financial statements for further information on the Sale Transaction and the Recapitalization.

Turfway Park Acquisition

On October 3, 2019, the Company announced that, through its wholly-owned subsidiary NKYRG, LLC, it signed a definitive agreement to acquire Turfway Park in Florence, Kentucky from Jack Ohio LLC, an affiliate of JACK Entertainment LLC ("JACK") and Hard Rock International ("Hard Rock") for total consideration of \$46.0 million in cash ("Turfway Park Acquisition"), subject to certain working capital and other purchase price adjustments.

On October 9, 2019, the Company completed the Turfway Park Acquisition upon receiving the necessary approval from the Kentucky Horse Racing Commission on October 8, 2019. The Company has commenced planning for the demolition of the existing grandstand following the 2019-2020 meet, making way for the Company's planned development of Turfway Park

Racing & Gaming, an up to \$150.0 million (including the Turfway Park Acquisition purchase price) state-of-the-art live and historical thoroughbred racing facility.

The Turfway Park Acquisition was funded with the Company's cash on hand. Of the \$46.0 million total consideration, \$36.0 million (subject to working capital and other purchase price adjustments) was paid to JACK and accounted for as a business combination. The remaining \$10.0 million was paid to Hard Rock for the assignment of the purchase and sale agreement rights and was accounted for separately from the business combination as an intangible asset and will be amortized through expense in the fourth quarter of 2019.

Sale of Big Fish Games, Inc.

On November 29, 2017, the Company entered into a definitive Stock Purchase Agreement (the "Stock Purchase Agreement") to sell its mobile gaming subsidiary, Big Fish Games, Inc. ("Big Fish Games"), a Washington corporation, for aggregate cash consideration of \$990.0 million, to Aristocrat Technologies, Inc. (the "Purchaser"), a Nevada corporation, an indirect, wholly owned subsidiary of Aristocrat Leisure Limited, an Australian corporation (the "Big Fish Transaction"). On January 9, 2018, pursuant to the Stock Purchase Agreement, the Company completed the Big Fish Transaction. The Company received cash proceeds of \$970.7 million, which was net of \$5.2 million of working capital adjustments and \$14.1 million of transaction costs.

Big Fish Games and the related Big Fish Transaction meet the criteria for discontinued operation presentation. Accordingly, the condensed consolidated statements of comprehensive income and the notes to financial statements reflect Big Fish Games as discontinued operations for all periods presented. Unless otherwise specified, disclosures in these condensed consolidated financial statements reflect continuing operations only. The condensed consolidated statements of cash flows include both continuing and discontinued operations. Refer to Note 5 of our condensed consolidated financial statements, Discontinued Operations, for further information on the discontinued operations relating to the Big Fish Transaction.

Stock Split

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

Key Indicators to Evaluate Business Results and Financial Condition

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

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

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

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

Adjusted EBITDA excludes:

- Transaction expense, net which includes:
 - Acquisition and disposition related charges, including fair value adjustments related to earnouts and deferred payments;
 - Calder racing exit costs; and
 - Other transaction expense, including legal, accounting and other deal-related expense;
- Stock-based compensation expense;
- Midwest Gaming's impact on our investments in unconsolidated affiliates from:

- The impact of changes in fair value of interest rate swaps; and
- Recapitalization and transaction costs;
- Asset impairments;
- Gain on Ocean Downs/Saratoga Transaction;
- Loss on extinguishment of debt;
- Legal reserves;
- Pre-opening expense; and
- Other charges, recoveries and expenses

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

Government Regulations and Legislative Actions

We are subject to various federal, state and international laws and regulations that affect our businesses. The ownership, operation and management of Churchill Downs, Online Wagering, Gaming and our other investments are subject to regulation under the laws and regulations of each of the jurisdictions in which we operate. The ownership, operation and management of our segments 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, 2018, including Part I - Item 1, "Business," for a discussion of regulatory and legislative issues.

Specific State Casino Regulations and Legislative Actions

Illinois

On June 28, 2019, the Governor of Illinois signed legislation into law that expands gaming opportunities in Illinois. The legislation provides that existing casinos can expand from 1,200 gaming positions to up to 2,000 gaming positions, authorizes licenses for six new casinos in Illinois, authorizes slots at the Chicago airports, authorizes a certain number of gaming positions at racetracks in Illinois, and authorizes certain tax credits. We believe this legislation will have a positive impact on our business operations.

Specific State Sports Betting and iGaming Regulations and Legislative Actions

Illinois

On June 28, 2019, the Governor of Illinois signed legislation into law that authorizes sports betting in Illinois. The legislation provides that certain casinos, racetracks, up to three affiliated off-track betting facilities ("OTBs"), and sports venues that hold more than 17,000 people are authorized to operate sports wagering at brick and mortar locations and online for a certain license fee. We believe this legislation will have a positive impact on our business operations.

TwinSpires Regulations and Legislative Actions

Illinois

On June 28, 2019, the Governor of Illinois signed legislation into law that removes the sunset date for advance deposit wagering operations. We believe this legislation will have a positive impact on our business operations.

Consolidated Financial Results

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

(in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
Net revenue	\$ 306.3	\$ 221.3	\$ 85.0	\$ 1,049.1	\$ 790.0	\$ 259.1
Operating income	27.8	20.5	7.3	212.2	176.8	35.4
Operating income margin	9 %	9 %		20 %	22 %	
Net income from continuing operations	\$ 15.2	\$ 58.0	\$ (42.8)	\$ 135.4	\$ 175.3	\$ (39.9)
Net income	14.8	56.3	(41.5)	133.5	341.4	(207.9)
Adjusted EBITDA	88.0	62.1	25.9	377.6	285.8	91.8

Three Months Ended September 30, 2019, Compared to Three Months Ended September 30, 2018

- Net revenue increased \$85.0 million driven by a \$68.1 million increase from the Gaming segment primarily due to the Presque Isle, Lady Luck Nemacolin and Ocean Downs/Saratoga Transactions, as well as growth at our other gaming properties, and a \$20.9 million increase from Churchill Downs primarily due to Derby City Gaming's continued growth and a full quarter of results compared to the prior year quarter with the September 2018 opening. Partially offsetting these increases were a \$1.7 million decrease from Online Wagering primarily due to the exit of certain existing high volume with low margin customers in the Velocity group within TwinSpires net revenue, a \$1.7 million decrease in All Other, primarily related to a decrease in handle at Arlington, and a \$0.6 million decrease from other sources.
- Operating income increased \$7.3 million due to a \$11.8 million increase from Gaming primarily driven by the increase in net revenue; a \$9.3 million increase from Churchill Downs primarily due to the opening of Derby City Gaming in September 2018; and a \$4.5 million decrease in transaction expense, net. Partially offsetting these increases were a \$12.5 million increase in selling, general and administrative expenses driven by the Presque Isle, Lady Luck Nemacolin and Ocean Downs/Saratoga Transactions, and the Derby City Gaming opening, as well as an increase in stock-based compensation, a \$4.7 million decrease primarily from the Online Wagering segment for costs associated with the continued build-out of our online sports betting and iGaming operations and increased marketing spend in New Jersey, and a \$1.1 million decrease from All Other primarily due to a decrease in handle and lower attendance at Arlington.
- Net income from continuing operations decreased \$42.8 million. The following items impacted comparability of the Company's third quarter of 2019 net income from continuing operations: a \$42.3 million after-tax gain on the Ocean Downs/Saratoga Transaction; a \$3.0 million after-tax increase in expenses due to legal reserves; a \$2.2 million after-tax impact of our equity portion of Midwest Gaming's non-cash change in fair value related to interest rate swaps; and a \$0.5 million non-cash tax expense related to the re-measurement of our net deferred tax liabilities from changes in state enacted rates. Partially offsetting these increases was a \$4.8 million after-tax decrease in expenses related to lower transaction, pre-opening and other expenses. Excluding these items, net income from continuing operations increased \$0.4 million primarily due to a \$7.7 million after-tax increase driven by the results of our operations and equity income from our unconsolidated affiliates, partially offset by a \$5.1 million after-tax increase in interest expense associated with higher outstanding debt balances and a \$2.2 million tax expense related to a higher effective tax rate compared to the prior year period due to an increase in income attributable to states with higher tax rates.
- Net income decreased \$41.5 million due to a \$42.8 million decrease in net income from continuing operations discussed above, partially offset by a \$1.3 million decrease in net loss from discontinued operations.
- Adjusted EBITDA increased \$25.9 million driven by a \$27.0 million increase from the Gaming segment primarily due to the Presque Isle, Midwest Gaming, and Ocean Downs/Saratoga Transactions, as well as strong performances of our wholly-owned Gaming properties and our equity investment in MVG, and an \$8.0 million increase from the Churchill Downs segment primarily from Derby City Gaming due to the increase in net revenue. Partially offsetting these increases were a \$5.8 million decrease from the Online Wagering segment for costs associated with the continued build-out of our online sports betting and iGaming operations and increased marketing spend in New Jersey, and a \$3.3 million decrease from All Other mainly due to a decrease in handle and lower attendance at Arlington and increased salaries and related benefits at the corporate level.

Nine Months Ended September 30, 2019, Compared to Nine Months Ended September 30, 2018

- Net revenue increased \$259.1 million driven by a \$195.3 million increase from the Gaming segment primarily due to the Presque Isle, Lady Luck Nemacolin and Ocean Downs/Saratoga Transactions, as well as growth at our other gaming properties, and a \$68.8 million increase from Churchill Downs primarily due to the opening of Derby City Gaming and a successful Kentucky Derby and Oaks week driven by increased ticket sales for reserved seating, sponsorship growth, and record handle at Churchill Downs Racetrack. Partially offsetting these increases was a \$5.0 million decrease from other sources primarily related to Arlington.
- Operating income increased \$35.4 million driven by a \$38.1 million increase from Gaming primarily driven by the increase in net revenue; a \$26.5 million increase from Churchill Downs primarily due to the opening of Derby City Gaming and a successful Kentucky Derby and Oaks week driven by increased ticket sales for reserved seating, sponsorship growth, and record handle at Churchill Downs Racetrack; and a \$3.9 million decrease in transaction expense, net. Partially offsetting these increases were a \$26.0 million increase in selling, general and administrative expenses driven by the Presque Isle, Lady Luck Nemacolin and Ocean Downs/Saratoga Transactions, and the Derby City Gaming opening, as well as an increase in stock-based compensation, a \$6.5 decrease in the Online Wagering segment for costs associated with the continued build-out of our online sports betting and iGaming operations and increased marketing spend in New Jersey, and a \$0.6 million decrease from other sources primarily related to Arlington.
- Net income from continuing operations decreased \$39.9 million. The following items impacted comparability of the Company's nine months ended September 30, 2019 net income from continuing operations: a \$42.3 million after-tax gain on the Ocean Downs/Saratoga Transaction; a \$11.3 million after-tax impact of our equity portion of Midwest Gaming's non-cash change in fair value related to interest rate swaps; a \$3.5 million after-tax impact of our equity portion of Midwest Gaming's recapitalization and transaction costs; a \$3.3 million after-tax increase in expenses due to legal reserves; and a \$2.7 million non-cash tax impact related to the re-measurement of our net deferred tax liabilities based on an increase in revenue related to states with higher tax rates compared to the prior year period. Partially offsetting these increases was a \$1.6 million after-tax decrease in expenses related to lower transaction, pre-opening and other expenses. Excluding these items, net income from continuing operations increased \$21.6 million primarily due to a \$44.4 million after-tax increase driven by the results of our operations and equity income from our unconsolidated affiliates, partially offset by a \$15.6 million after-tax increase in interest expense associated with higher outstanding debt balances and a \$7.2 million tax expense related to a higher effective tax rate compared to the prior year period due to an increase in income attributable to states with higher tax rates.
- Net income decreased \$207.9 million due to a \$39.9 million decrease in net income from continuing operations discussed above and a \$168.0 million decrease in net income from discontinued operations driven by the after-tax gain on the sale of Big Fish Games in January 2018.
- Adjusted EBITDA increased \$91.8 million driven by a \$75.8 million increase from the Gaming segment primarily due to the Presque Isle, Midwest Gaming, and Ocean Downs/Saratoga Transactions, as well as strong performances of our wholly-owned Gaming properties and our equity investment in MVG, and a \$29.4 million increase from the Churchill Downs segment primarily due to the opening of Derby City Gaming in September 2018 and a successful Kentucky Derby and Oaks week driven by increased ticket sales for reserved seating, sponsorship growth, and record handle at Churchill Downs Racetrack. Partially offsetting these increases were a \$9.0 million decrease from the Online Wagering segment for costs associated with the continued build-out of our online sports betting and iGaming operations and increased marketing spend in New Jersey, and a \$4.4 million decrease from All Other mainly due to a decrease in handle at Arlington and increased salaries and related benefits at the corporate level.

Financial Results by Segment

Net Revenue by Segment

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

<i>(in millions)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
Churchill Downs:						
Churchill Downs Racetrack	\$ 10.2	\$ 9.5	\$ 0.7	\$ 184.8	\$ 176.1	\$ 8.7
Derby City Gaming	22.5	2.3	20.2	62.4	2.3	60.1
Total Churchill Downs	32.7	11.8	20.9	247.2	178.4	68.8
Online Wagering:						
TwinSpires	70.5	72.1	(1.6)	229.7	229.8	(0.1)
Online Sports Betting and iGaming	(0.1)	—	(0.1)	0.1	—	0.1
Total Online Wagering	70.4	72.1	(1.7)	229.8	229.8	—
Gaming:						
Presque Isle	38.3	—	38.3	105.3	—	105.3
Fair Grounds and VSI	25.0	24.5	0.5	94.7	89.5	5.2
Oxford	27.2	28.9	(1.7)	77.4	79.3	(1.9)
Calder	24.5	24.1	0.4	75.5	75.0	0.5
Ocean Downs	26.7	8.1	18.6	67.0	8.1	58.9
Riverwalk	13.6	12.8	0.8	44.1	40.8	3.3
Harlow's	13.3	12.1	1.2	41.9	37.9	4.0
Lady Luck Nemaocolin	10.0	—	10.0	20.6	—	20.6
Saratoga	—	—	—	—	0.6	(0.6)
Total Gaming	178.6	110.5	68.1	526.5	331.2	195.3
All Other	29.8	31.5	(1.7)	69.9	72.8	(2.9)
Eliminations	(5.2)	(4.6)	(0.6)	(24.3)	(22.2)	(2.1)
Net Revenue	\$ 306.3	\$ 221.3	\$ 85.0	\$ 1,049.1	\$ 790.0	\$ 259.1

Three Months Ended September 30, 2019, Compared to Three Months Ended September 30, 2018

- Churchill Downs revenue increased \$20.9 million primarily due to a \$20.2 million increase from Derby City Gaming's continued growth and a full quarter of results compared to the prior year quarter with the September 2018 opening and a \$0.7 million increase at Churchill Downs Racetrack primarily due to an increase in handle.
- Online Wagering revenue decreased \$1.7 million from the prior year primarily due to the exit of certain existing high volume with low margin customers in the Velocity group within TwinSpires net revenue. TwinSpires handle, which does not include handle from customers in the Velocity group, grew 7.9% during the third quarter of 2019 compared to the prior year and compared favorably to a 1.9% decrease in U.S. thoroughbred industry handle. Active players increased 2.6% for the quarter compared to the prior year while net revenue per active player declined 1.1%. Our Online Sports Betting and iGaming net revenues were negative \$0.1 million for the third quarter of 2019 as sign-up bonus incentives in New Jersey outpaced gross revenue. Gross revenues were \$0.6 million, which were more than offset by \$0.7 million of rebates during the third quarter of 2019.

- Gaming revenue increased \$68.1 million driven by a \$38.3 million increase due to the Presque Isle Transaction, an \$18.6 million increase due to the Ocean Downs/Saratoga Transaction, a \$10.0 million increase due to the Lady Luck Nemaquin Transaction, a \$2.0 million increase from our Mississippi properties primarily due to higher attendance driven by our retail BetAmerica Sportsbooks which opened in August 2018, a \$0.5 million increase at Fair Grounds and VSI primarily due to an additional off-track betting and video poker facility and successful marketing and promotional activities, and a \$0.4 million increase at Calder from successful marketing and promotional activities. Partially offsetting these increases was a \$1.7 million decrease at Oxford due to table games performance and from promotional activity of a new market entrant in the Boston area.
- All Other revenue decreased \$1.7 million primarily due to a decrease in handle and lower attendance at Arlington.

Nine Months Ended September 30, 2019, Compared to Nine Months Ended September 30, 2018

- Churchill Downs revenue increased \$68.8 million primarily due to a \$60.1 million increase from the opening of Derby City Gaming and an \$8.7 million increase at Churchill Downs Racetrack, primarily due to a successful Kentucky Derby and Oaks week driven by increased ticket sales for reserved seating, sponsorship growth, and record handle.
- Online Wagering revenue remained consistent with the prior year period. TwinSpires handle, which does not include handle from customers in the Velocity group, grew 4.0% for the nine months ended September 30, 2019 compared to the prior year, and compared favorably to a 2.8% decrease in US thoroughbred industry. TwinSpires revenue was favorably impacted by a 17.7% increase in active players, partially offset by a 15.1% decrease in net revenue per active player. Our Online Sports Betting and iGaming net revenues were \$0.1 million for the nine months ended September 30, 2019. Gross revenues were \$1.0 million, partially offset by \$0.9 million of rebates for the nine months ended September 30, 2019.
- Gaming revenue increased \$195.3 million driven by a \$105.3 million increase due to the Presque Isle Transaction, a \$58.9 million increase due to the Ocean Downs/Saratoga Transaction, a \$20.6 million increase due to the Lady Luck Nemaquin Transaction, a \$7.3 million increase from our Mississippi properties primarily due to higher attendance driven by our retail BetAmerica Sportsbooks which opened in August 2018, and a \$5.2 million increase at Fair Grounds and VSI primarily due to two additional off-track betting and video poker facilities, successful marketing and promotional activities and increased handle. Partially offsetting these increases were a \$1.9 million decrease at Oxford due to table games performance and from promotional activity of a new market entrant in the Boston area and a \$0.1 million decrease from other sources.
- All Other revenue decreased \$2.9 million primarily due to a decrease in handle at Arlington.

Consolidated Operating Expense

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

<i>(in millions)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
Taxes and purses	\$ 91.3	\$ 51.9	\$ 39.4	\$ 282.6	\$ 170.4	\$ 112.2
Salaries and benefits	43.5	31.6	11.9	127.8	93.9	33.9
Content expense	35.3	36.5	(1.2)	109.2	110.2	(1.0)
Selling, general and administrative expense	34.4	21.9	12.5	89.4	63.4	26.0
Depreciation and amortization	22.0	16.7	5.3	64.3	45.8	18.5
Marketing and advertising	10.7	6.0	4.7	31.6	20.9	10.7
Transaction expense, net	0.9	5.4	(4.5)	5.0	8.9	(3.9)
Other operating expense	40.4	30.8	9.6	127.0	99.7	27.3
Total expense	\$ 278.5	\$ 200.8	\$ 77.7	\$ 836.9	\$ 613.2	\$ 223.7

Three Months Ended September 30, 2019, Compared to Three Months Ended September 30, 2018

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses increased \$39.4 million driven by the Presque Isle, Lady Luck Nemaquin, and Ocean Downs/Saratoga Transactions, and the opening of Derby City Gaming.
- Salaries and benefits expense increased \$11.9 million driven primarily by additional personnel costs and related benefits from the Presque Isle, Lady Luck Nemaquin, and Ocean Downs/Saratoga Transactions, and the opening of Derby City Gaming.
- Content expense decreased \$1.2 million primarily due to a decrease in certain host fees consistent with the decrease in TwinSpires net revenue.

- Selling, general and administrative expense increased \$12.5 million primarily from an increase in salaries and related benefits, legal reserves, and stock-based compensation.
- Depreciation and amortization expense increased \$5.3 million primarily driven by the Presque Isle, Lady Luck Nemaquin, and Ocean Downs/Saratoga Transactions, the opening of Derby City Gaming, and capital expenditures placed into service for Churchill Downs Racetrack.
- Marketing and advertising expense increased \$4.7 million primarily due to our online sports betting and iGaming operations in New Jersey, and the Presque Isle, Lady Luck Nemaquin, and Ocean Downs/Saratoga Transactions.
- Transaction expense, net decreased \$4.5 million primarily due to increased expenses associated with announced transactions in the third quarter of 2018 that did not recur in the third quarter of 2019.
- Other operating expenses include maintenance, utilities, food and beverage costs, property taxes, insurance, and other operating expenses. Other operating expense increased \$9.6 million primarily driven by the Presque Isle, Lady Luck Nemaquin, and Ocean Downs/Saratoga Transactions, and the opening of Derby City Gaming.

Nine Months Ended September 30, 2019, Compared to Nine Months Ended September 30, 2018

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses increased \$112.2 million driven by the Presque Isle, Lady Luck Nemaquin, and Ocean Downs/Saratoga Transactions, and the opening of Derby City Gaming.
- Salaries and benefits expense increased \$33.9 million driven primarily by additional personnel costs and related benefits from the Presque Isle, Lady Luck Nemaquin, and Ocean Downs/Saratoga Transactions, and the opening of Derby City Gaming.
- Content expense decreased \$1.0 million primarily due to a decrease in certain host fees.
- Selling, general and administrative expense increased \$26.0 million primarily from an increase in salaries and related benefits, stock-based compensation, and legal reserves.
- Depreciation and amortization expense increased \$18.5 million primarily driven by the Presque Isle, Lady Luck Nemaquin, and Ocean Downs/Saratoga Transactions, the opening of Derby City Gaming, and capital expenditures placed into service for Churchill Downs Racetrack.
- Marketing and advertising expense increased \$10.7 million primarily from the Presque Isle, Lady Luck Nemaquin, and Ocean Downs/Saratoga Transactions, our online sports betting and iGaming operations related to New Jersey, and the opening of Derby City Gaming.
- Transaction expense, net decreased \$3.9 million primarily due to increased expenses associated with announced transactions in 2018 that did not recur in 2019.
- Other operating expenses include maintenance, utilities, food and beverage costs, property taxes, and other operating expenses. Other operating expense increased \$27.3 million primarily driven by the Presque Isle, Lady Luck Nemaquin, and Ocean Downs/Saratoga Transactions, the opening of Derby City Gaming, and the sports betting and iGaming operations.

Adjusted EBITDA

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

<i>(in millions)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
Churchill Downs	\$ 5.2	\$ (2.8)	\$ 8.0	\$ 128.5	\$ 99.1	\$ 29.4
Online Wagering	15.0	20.8	(5.8)	54.1	63.1	(9.0)
Gaming	71.7	44.7	27.0	212.6	136.8	75.8
Total Segment Adjusted EBITDA	91.9	62.7	29.2	395.2	299.0	96.2
All Other	(3.9)	(0.6)	(3.3)	(17.6)	(13.2)	(4.4)
Total Adjusted EBITDA	\$ 88.0	\$ 62.1	\$ 25.9	\$ 377.6	\$ 285.8	\$ 91.8

Three Months Ended September 30, 2019, Compared to Three Months Ended September 30, 2018

- Churchill Downs Adjusted EBITDA increased \$8.0 million due to an \$8.9 million increase from Derby City Gaming due to the increase in net revenue, partially offset by a \$0.9 million decrease from Churchill Downs Racetrack primarily due to increased salaries and related benefits and increased property taxes.
- Online Wagering Adjusted EBITDA decreased \$5.8 million primarily due a \$5.0 million decrease from costs associated with the continued build-out of our online sports betting and iGaming operations and increased marketing spend in New Jersey, and a \$0.8 million decrease from TwinSpires due to the decrease in net revenue.
- Gaming Adjusted EBITDA increased \$27.0 million driven by a \$26.4 million increase from our equity investment in Midwest Gaming and the Presque Isle and Lady Luck Nemaacolin Transactions; a \$0.9 million increase from our Mississippi properties primarily due to higher attendance driven by the opening of our retail BetAmerica Sportsbooks; a \$0.7 million increase from continued growth at MVG; a \$0.7 million increase from Ocean Downs due to the acquisition of the remaining 37.5% of Ocean Downs partially offset by the liquidation of our equity investments in Saratoga as a result of the Ocean Downs/Saratoga Transaction; and a \$0.4 million increase from other sources. Partially offsetting these increases were a \$1.5 million decrease at Oxford primarily due to the decrease in net revenue and a \$0.6 million decrease at Calder associated with the May 2019 opening of the jai alai operation.
- All Other Adjusted EBITDA decreased \$3.3 million primarily from a \$2.3 million decrease from increased salaries and related benefits at the corporate level and a \$1.0 million decrease at Arlington primarily due to the decrease in net revenue.

Nine Months Ended September 30, 2019, Compared to Nine Months Ended September 30, 2018

- Churchill Downs Adjusted EBITDA increased \$29.4 million due to a \$25.4 million increase from the opening of Derby City Gaming and a \$4.0 million increase at Churchill Downs Racetrack, primarily due to a successful Kentucky Derby and Oaks week driven by increased ticket sales for reserved seating, sponsorship growth, and record handle.
- Online Wagering Adjusted EBITDA decreased \$9.0 million driven by a \$7.9 million decrease due to costs associated with the continued build-out of our online sports betting and iGaming operations and increased marketing spend in New Jersey. TwinSpires' Adjusted EBITDA decreased \$1.1 million primarily due to an increase in salaries and related benefits and marketing spend.
- Gaming Adjusted EBITDA increased \$75.8 million driven by a \$67.3 million increase from our equity investment in Midwest Gaming and the Presque Isle and Lady Luck Nemaacolin Transactions; a \$4.2 million increase from our Mississippi properties primarily due to higher attendance driven by the opening of our retail BetAmerica Sportsbooks; a \$2.6 million increase from Fair Grounds and VSI primarily due to two additional OTBs and video poker facilities, successful marketing and promotional activities, and increased handle; a \$2.6 million increase from our equity investment at MVG; and a \$2.3 million increase from Ocean Downs due to the acquisition of the remaining 37.5% of Ocean Downs partially offset by the liquidation of our equity investments in Saratoga as a result of the Ocean Downs/Saratoga Transaction. Partially offsetting these increases were a \$1.9 million decrease at Calder associated with the May 2019 opening of the jai alai operation, and favorable insurance reserve adjustments in the prior year that did not recur in 2019, and a \$1.3 million decrease at Oxford primarily due to the decrease in net revenue.
- All Other Adjusted EBITDA decreased \$4.4 million primarily from a \$4.5 million increase in salaries and related benefits at the corporate level and a \$1.7 million decrease at Arlington due to decreased handle and lower attendance primarily related to inclement weather. Partially offsetting these decreases was a \$1.8 million increase from United Tote primarily due to increased equipment sales and higher totalisator fees from new customers.

Reconciliation of Comprehensive Income to Adjusted EBITDA

<i>(in millions)</i>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
Comprehensive income	\$ 14.8	\$ 56.5	\$ (41.7)	\$ 133.5	\$ 341.8	\$ (208.3)
Foreign currency translation, net of tax	—	—	—	—	(0.6)	0.6
Change in pension benefits, net of tax	—	(0.2)	0.2	—	0.2	(0.2)
Net income	14.8	56.3	(41.5)	133.5	341.4	(207.9)
Loss (income) from discontinued operations, net of tax	0.4	1.7	(1.3)	1.9	(166.1)	168.0
Income from continuing operations, net of tax	15.2	58.0	(42.8)	135.4	175.3	(39.9)
Additions:						
Depreciation and amortization	22.0	16.7	5.3	64.3	45.8	18.5
Interest expense	18.9	9.9	9.0	52.0	29.2	22.8
Income tax provision	8.0	16.7	(8.7)	53.1	52.1	1.0
EBITDA	<u>\$ 64.1</u>	<u>\$ 101.3</u>	<u>\$ (37.2)</u>	<u>\$ 304.8</u>	<u>\$ 302.4</u>	<u>\$ 2.4</u>
Adjustments to EBITDA:						
Selling, general and administrative:						
Stock-based compensation expense	\$ 5.5	\$ 3.9	\$ 1.6	\$ 17.6	\$ 13.1	\$ 4.5
Legal reserves	3.3	—	3.3	3.6	—	3.6
Pre-opening expense and other expense	1.2	2.8	(1.6)	3.6	4.1	(0.5)
Transaction expense, net	0.9	5.4	(4.5)	5.0	8.9	(3.9)
Gain on Ocean Downs/Saratoga transaction	—	(54.9)	54.9	—	(54.9)	54.9
Other income (expense):						
Interest, depreciation and amortization expense related to equity investments	9.7	3.6	6.1	22.9	12.2	10.7
Changes in fair value of Midwest Gaming's interest rate swaps	3.2	—	3.2	15.4	—	15.4
Midwest Gaming's recapitalization and transactions costs	—	—	—	4.7	—	4.7
Other	0.1	—	0.1	—	—	—
Total adjustments to EBITDA	23.9	(39.2)	63.1	72.8	(16.6)	89.4
Adjusted EBITDA	<u>\$ 88.0</u>	<u>\$ 62.1</u>	<u>\$ 25.9</u>	<u>\$ 377.6</u>	<u>\$ 285.8</u>	<u>\$ 91.8</u>

Consolidated Balance Sheet

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

<i>(in millions)</i>	September 30, 2019	December 31, 2018	Change
Total assets	\$ 2,562.5	\$ 1,725.2	\$ 837.3
Total liabilities	\$ 2,012.1	\$ 1,251.9	\$ 760.2
Total shareholders' equity	\$ 550.4	\$ 473.3	\$ 77.1

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

- Total assets increased \$837.3 million driven by a \$516.9 million increase in investments and advances to unconsolidated affiliates due to our equity investment in Midwest Gaming; a \$137.7 million increase in property and equipment, net due to the Presque Isle Transaction, the construction of Oak Grove, and the implementation of ASC 842; a \$91.8 million increase in other intangibles and a \$25.8 million increase in goodwill both of which were primarily due to the Presque Isle Transaction; a \$56.5 million increase in cash and cash equivalents primarily related to a successful 2019 Kentucky Derby and Oaks week and strong performances from our Derby City Gaming property and Gaming segment; and a \$8.6 million increase in all other assets.
- Total liabilities increased \$760.2 million driven by a \$592.4 million increase in notes payable, net of debt issuance costs due to the issuance of the 2027 Senior Notes (as defined below); a \$131.6 million increase in deferred income taxes due primarily to our equity investment in Midwest Gaming; a \$34.7 million increase in accrued expenses primarily due to the Presque Isle Transaction, the construction of Oak Grove, and an increase in interest payable due to the increase in outstanding debt; a \$28.8 million increase in accounts payable primarily due to the timing of racing related and simulcast payments; a \$23.2 million increase in other liabilities primarily due to the adoption of ASC 842; and a \$10.5 million increase in purses payable due to our spring and summer race meets. Partially offsetting these increases were a \$37.5 million decrease in deferred revenue due to recognition of advance sales for the 2019 Kentucky Derby and Oaks, a \$22.5 million decrease in dividends payable due to the payment of our annual dividends in January 2019, and a \$1.0 million decrease in all other liabilities.
- Total shareholders' equity increased \$77.1 million driven by \$133.5 million current year net income, \$17.6 million in stock-based compensation, and a \$1.7 million increase related to other sources, partially offset by \$68.0 million in repurchases of common stock and \$7.7 million in taxes paid related to net share settlement of stock awards.

Liquidity and Capital Resources

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

(in millions)	Nine Months Ended September 30,		
	2019	2018	Change
Cash flows from:			
Operating activities	\$ 260.2	\$ 135.4	\$ 124.8
Investing activities	\$ (690.6)	\$ 848.9	\$ (1,539.5)
Financing activities	\$ 490.9	\$ (899.1)	\$ 1,390.0

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.

Nine Months Ended September 30, 2019, Compared to the Nine Months Ended September 30, 2018

- Cash provided by operating activities increased \$124.8 million driven by a \$35.4 million increase in operating income related to continuing operations, a \$31.9 million decrease in cash taxes paid, a \$30.6 million increase from working capital, a \$10.3 million increase in distributions from unconsolidated affiliates, and a \$16.6 million increase from all other operating activities.
- Cash used in investing activities increased \$1,539.5 million driven by a \$970.7 million decrease in cash proceeds related to the Big Fish Transaction, a \$410.1 million increase in investment in and advances to unconsolidated affiliates related to our equity investment in Midwest Gaming, and a \$172.1 million increase due to the Presque Isle Transaction, partially offset by a \$13.4 million decrease in cash used in all other investing activities.
- Cash provided by financing activities increased \$1,390.0 million primarily driven by a \$600.0 million increase from the issuance of our 2027 Senior Notes, a \$435.0 million decrease in share repurchases, a \$242.0 million increase in net borrowings relating to our 2017 Credit Agreement (as defined below), a \$58.2 decrease as a result of Big Fish Games deferred and earnout payments and a \$54.7 million decrease in debt repayments made for Ocean Downs in 2018, both of which did not recur in 2019, and a \$0.1 million increase from all other financing activities.

Credit Facilities and Indebtedness

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

<i>(in millions)</i>	September 30, 2019	December 31, 2018	Change
Term Loan B due 2024	\$ 393.0	\$ 396.0	\$ (3.0)
2027 Senior Notes	600.0	—	600.0
2028 Senior Notes	500.0	500.0	—
Total debt	1,493.0	896.0	597.0
Current maturities of long-term debt	4.0	4.0	—
Total debt, net of current maturities	1,489.0	892.0	597.0
Issuance cost and fees	(18.8)	(11.7)	(7.1)
Total debt, net of current maturities	\$ 1,470.2	\$ 880.3	\$ 589.9

2017 Credit Agreement

On December 27, 2017, we entered into the 2017 Credit Agreement (as defined below) with a syndicate of lenders. The 2017 Credit Agreement replaced the 2014 Senior Secured Credit Agreement. The 2017 Credit Agreement provides a \$700.0 million revolving credit facility (the "Revolver") and a \$400.0 million Senior Secured Term Loan B (the "Term Loan B" and together with the Revolver, the "2017 Credit Agreement"). Included in the maximum borrowing of \$700.0 million under the Revolver is a letter of credit sub facility not to exceed \$50.0 million and a swing line commitment up to a maximum principal amount of \$50.0 million. The 2017 Credit Amendment is secured by substantially all of the assets of the Company.

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

The 2017 Credit Agreement contains certain customary affirmative and negative covenants, which include limitations on liens, investments, indebtedness, dispositions, mergers and acquisitions, the making of restricted payments, changes in the nature of business, changes in fiscal year, and transactions with affiliates. The 2017 Credit Agreement also contains financial covenants providing for the maintenance of a maximum consolidated secured net leverage ratio and maintenance of a minimum consolidated interest coverage ratio. The Company was in compliance with all applicable covenants in the 2017 Credit Agreement at September 30, 2019. At September 30, 2019, the financial ratios under our 2017 Credit Agreement were as follows:

	Actual	Requirement
Interest coverage ratio	6.1 to 1.0	> 2.5 to 1.0
Consolidated total secured net leverage ratio	0.6 to 1.0	< 4.0 to 1.0

The Term Loan B requires quarterly payments of 0.25% of the original \$400.0 million balance, or \$1.0 million per quarter. The Term Loan B may be subject to additional mandatory prepayment from excess cash flow on an annual basis per the provisions of the 2017 Credit Agreement. The Company is required to pay a commitment fee on the unused portion of the Revolver determined by a pricing grid based on the consolidated total net leverage ratio of the Company. For the period ended September 30, 2019, the Company's commitment fee rate was 0.30%.

As a result of the Company's 2017 Credit Agreement, the Company capitalized \$2.0 million of debt issuance costs associated with the Revolver which will be amortized as interest expense over 5 years. The Company also capitalized \$5.4 million of deferred financing costs associated with the Term Loan B which will be amortized as interest expense over 7 years.

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 2017 Credit Agreement. In connection with the offering, we capitalized \$8.9 million of debt issuance costs which are being amortized as interest expense over the term of the 2027 Senior Notes.

The 2027 Senior Notes were issued pursuant to an indenture, dated March 25, 2019 (the "2027 Indenture"), among the Company, certain subsidiaries of the Company as guarantors (the "Guarantors"), and U.S. Bank National Association, as trustee. The Company may redeem some or all of the 2027 Senior Notes at any time prior to April 1, 2022, at a price equal to 100% of the principal amount of the 2027 Senior Notes redeemed plus an applicable make-whole premium. On or after such date, the Company may redeem some or all of the 2027 Senior Notes at redemption prices set forth in the 2027 Indenture. In addition, at any time prior to April 1, 2022, the Company may redeem up to 40% of the aggregate principal amount of the 2027 Senior Notes at a redemption price equal to 105.50% of the principal amount thereof with the net cash proceeds of one or more equity offerings provided that certain conditions are met. The terms of the 2027 Indenture, among other things, limit the ability of the Company to: (i) incur additional debt and issue preferred stock; (ii) pay dividends or make other restricted payments; (iii) make certain investments; (iv) create liens; (v) allow restrictions on the ability of certain of our subsidiaries to pay dividends or make other payments; (vi) sell assets; (vii) merge or consolidate with other entities; and (viii) enter into transactions with affiliates.

In connection with the issuance of the 2027 Senior Notes, the Company and the Guarantors entered into a Registration Rights Agreement to register any 2027 Senior Notes under the Securities Act for resale that are not freely tradable 366 days from March 25, 2019.

2028 Senior Notes

On December 27, 2017, we completed an offering of \$500.0 million in aggregate principal amount of 4.75% Senior Unsecured Notes that mature on January 15, 2028 (the "2028 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act, and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The 2028 Senior Notes were issued at par, with interest payable on January 15th and July 15th of each year, commencing on July 15, 2018. The Company used the net proceeds from the offering to repay a portion of our \$600.0 million 5.375% Senior Unsecured Notes. In connection with the offering, we capitalized \$7.7 million of debt issuance costs which are being amortized as interest expense over the term of the 2028 Senior Notes.

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

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

Contractual Obligations

Our commitments to make future payments as of September 30, 2019, are estimated as follows:

<i>(in millions)</i>	October 1 to December 31, 2019	2020-2021	2022-2023	Thereafter	Total
Term Loan B	\$ 1.0	\$ 8.0	\$ 8.0	\$ 376.0	\$ 393.0
Interest on Term Loan B ⁽¹⁾	4.1	31.9	31.2	15.3	82.5
2027 Senior Notes	—	—	—	600.0	600.0
2028 Senior Notes	—	—	—	500.0	500.0
Interest on 2027 Senior Notes	—	66.0	66.0	115.5	247.5
Interest on 2028 Senior Notes	—	47.5	47.5	106.9	201.9
Operating leases	1.4	10.5	7.4	11.6	30.9
Total	<u>\$ 6.5</u>	<u>\$ 163.9</u>	<u>\$ 160.1</u>	<u>\$ 1,725.3</u>	<u>\$ 2,055.8</u>

(1) Interest includes the estimated contractual payments under our 2017 Credit Agreement assuming no change in the weighted average borrowing rate of 4.05% which was the rate in place as of September 30, 2019.

As of September 30, 2019, we had approximately \$1.7 million of tax liabilities related to unrecognized tax benefits.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

General economic trends

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

Interest rate and credit risk

Our primary exposure to market risk relates to changes in interest rates. At September 30, 2019, we had \$393.0 million outstanding under our 2017 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 \$2.8 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, 2019. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer noted that we failed to file an amendment to our March 5, 2019 Form 8-K to provide historical audited financial statements for Midwest Gaming and related pro forma information, and as a result our disclosure controls and procedures were not effective as of September 30, 2019. Our evaluation concluded that the ineffectiveness of our disclosure controls and procedures was solely due to improper application of the significance tests

associated with Rule 3-05 of Regulation S-X and Article 11 of Regulation S-X for an acquired business and did not impact our current financial reporting or the Company's current or historical financial statements. We expect to file the late amendment within the next several weeks and have enhanced our disclosure controls and procedures to ensure we appropriately apply the significance tests to determine whether any required historical and pro forma financial information for acquired businesses are required.

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 and additions since the filing of our Annual Report on Form 10-K for the year ended December 31, 2018, as most recently updated in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, relating to the proceedings involving the Company. In addition to the matters described below, we are also involved in ordinary routine litigation matters which are incidental to our business. Refer to Note 15, Contingencies, to our condensed consolidated financial statements, for further information.

Kater Class Action Suit

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

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

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

The complaint was amended on March 20, 2019, to add Big Fish Games, Inc., as a party and to assert claims on behalf of an additional plaintiff, Suzie Kelly. On May 10, 2019, the Company filed an answer as to the claims asserted by plaintiff Kater, and joined Big Fish Games in moving to compel arbitration as to all claims asserted by plaintiff Kelly. Big Fish Games also moved to compel arbitration against plaintiff Kater. On June 13, 2019, defendants moved to stay discovery pending resolution of the motion to compel arbitration. On August 21, 2019, the Washington District Court partially granted the motion and stayed discovery pending a ruling on the motions to compel arbitration against plaintiffs Kater and Kelly, except as to discovery requests plaintiff Kater served on the Company before amending the complaint. On September 12, 2019, the Washington District Court ordered that the case would be stayed entirely (except for the aforementioned discovery requests), pending the United States Court of Appeals for the Ninth Circuit's ruling on arbitration issues raised in other cases which may be relevant to the arguments raised in the pending motions to compel arbitration.

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

Thimmegowda Class Action Suit

On February 11, 2019, a purported class action styled Manasa Thimmegowda v. Big Fish Games, Aristocrat Technologies Inc. ("Purchaser"), Aristocrat Leisure Limited, and Churchill Downs Inc., 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 10, 2019, all of the defendants moved to compel arbitration of the claims, and the Company, the Purchaser and Aristocrat Leisure Limited also moved to dismiss the action for lack of personal jurisdiction. On June 13, 2019, defendants moved to stay discovery pending resolution of those motions. On September 12, 2019, the Washington District Court ordered that the case would be stayed entirely, pending the United States Court of Appeals

for the Ninth Circuit's ruling on arbitration issues raised in other cases which may be relevant to the arguments raised in the pending motion to compel arbitration. The Company is working to vigorously defend this matter, and believes that there are meritorious legal and factual defenses against plaintiff's allegations and requests for relief.

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

On March 1, 2013, James Rivera, individually and by and through his wife and their children, filed a First Amended Complaint for Damages (as amended from time to time) styled James Rivera, et al. v. Calder Race Course, Inc., et al. in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida (the "Circuit Court"), stemming from a spinal cord injury to Mr. Rivera when the horse he was exercising collapsed and died during a workout at Calder Race Course on November 25, 2008. The parties settled the matter in September 2019 with no material financial impact on the Company, and filed a joint stipulation of dismissal with the Circuit Court on October 23, 2019.

Louisiana Environmental Protection Agency Non-Compliance Issue

On December 6, 2013, we received a notice from the United States Environmental Protection Agency ("EPA") regarding alleged CAFO non-compliance at Fair Grounds Race Course. On October 21, 2019, we reached an agreement in principal, subject to final approval. If approved, the agreement will include a \$2.8 million penalty, which is included as a selling, general and administrative expense in our accompanying condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2019, and included in accrued expense in our accompanying condensed consolidated balance sheet at September 30, 2019.

Louisiana Horsemen's Purses Class Action Suit

On April 21, 2014, John L. Soileau and other individuals filed a Petition for Declaratory Judgment, Permanent Injunction, and Damages-Class Action styled John L. Soileau, et. al. versus Churchill Downs Louisiana Horseracing, LLC, Churchill Downs Louisiana Video Poker Company, LLC (Suit No. 14-3873) in the Parish of Orleans Civil District Court, State of Louisiana (the "District Court"). The petition defined the "alleged plaintiff class" as quarter-horse owners, trainers and jockeys that have won purses at the "Fair Grounds Race Course & Slots" facility in New Orleans, Louisiana since the first effective date of La. R.S. 27:438 and specifically since 2008. The petition alleged that Churchill Downs Louisiana Horseracing, L.L.C. and Churchill Downs Louisiana Video Poker Company, L.L.C. ("Fair Grounds Defendants") have collected certain monies through video draw poker devices that constitute monies earned for purse supplements and all of those supplemental purse monies have been paid to thoroughbred horsemen during Fair Grounds' live thoroughbred horse meets. La. R.S. 27:438 requires a portion of those supplemental purse monies to be paid to quarter-horse horsemen during Fair Grounds' live quarter-horse meets. The petition requested that the District Court declare that Fair Grounds Defendants violated La. R.S. 27:438, issue a permanent and mandatory injunction ordering Fair Grounds Defendants to pay all future supplements due to the plaintiff class pursuant to La. R.S. 27:438, and to pay the plaintiff class such sums as it finds to reasonably represent the value of the sums due to the plaintiff class. On August 14, 2014, the plaintiffs filed an amendment to their petition naming the Horsemen's Benevolent and Protective Association 1993, Inc. ("HBPA") as an additional defendant and alleging that HBPA is also liable to plaintiffs for the disputed purse funds. On October 9, 2014, HBPA and Fair Grounds Defendants filed exceptions to the suit, including an exception of primary jurisdiction seeking referral to the Louisiana Racing Commission. By Judgment dated November 21, 2014, the District Court granted the exception of primary jurisdiction and referred the matter to the Louisiana Racing Commission. On January 26, 2015, the Louisiana Fourth Circuit Court of Appeals denied the plaintiffs' request for supervisory review of the Judgment. On August 24, 2015, the Louisiana Racing Commission ruled that the plaintiffs did not have standing or a right of action to pursue the case. On September 18, 2015, the plaintiffs filed a Petition for Appeal of Administrative Order Dismissing Case for No Right of Action in the District Court seeking a reversal of the Louisiana Racing Commission's ruling. On July 13, 2016, the plaintiffs filed their brief with the District Court and Fair Grounds Defendants filed its brief on August 12, 2016. A hearing was held at the District Court on September 15, 2016 and the District Court affirmed the Louisiana Racing Commission's ruling. The plaintiffs filed an appeal with the Louisiana Fourth Circuit Court of Appeals on December 7, 2016. By Order dated August 23, 2017, the Louisiana Fourth Circuit Court of Appeals dismissed the plaintiffs' appeal without prejudice because the District Court's Judgment did not contain the necessary decretal language. To correct this deficiency, the District Court entered an Amended Judgment on September 19, 2017. On December 11, 2017, the plaintiffs appealed the Amended Judgment to the Louisiana Fourth Circuit Court of Appeals. On June 13, 2018, the Louisiana Fourth Circuit Court of Appeals reversed the Louisiana Racing Commission's ruling and remanded the matter to the Louisiana Racing Commission for further proceedings. On June 27, 2018, the Fair Grounds Defendants filed a Motion for Rehearing with the Louisiana Fourth Circuit Court of Appeals which was denied on July 12, 2018. On August 10, 2018, the Fair Grounds Defendants filed a Writ of Certiorari to the Louisiana Supreme Court seeking review of the Fourth Circuit Court of Appeal's decision; the writ was denied on November 14, 2018. The parties had previously attempted to mediate the matter in October 2018. The Company is engaged in ongoing settlement discussions and have established an accrual for an immaterial amount.

ITEM 1A. RISK FACTORS

There have been no material changes with respect to risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

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, 2019:

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⁾
7/1/19-7/31/19	249	\$ 117.73	—	\$ 225.0
8/1/19-8/31/19	124	125.07	—	225.0
9/1/19-9/30/19	202,662	123.47	202,449	200.0
Total	203,035	\$ 123.46	202,449	

- (1) On October 30, 2018, the Board of Directors of the Company approved a new common stock repurchase program of up to \$300.0 million. The new program replaces the prior \$250.0 million program that was authorized in April 2017 and had unused authorization of \$78.3 million. The repurchase program has no time limit and may be suspended or discontinued at any time.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

SIGNATURES

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

CHURCHILL DOWNS INCORPORATED

October 30, 2019

/s/ William C. Carstanjen

William C. Carstanjen

Chief Executive Officer

(Principal Executive Officer)

October 30, 2019

/s/ Marcia A. Dall

Marcia A. Dall

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

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 30, 2019

/s/ William C. Carstanjen

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

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 30, 2019

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

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

In connection with the Quarterly Report on Form 10-Q of Churchill Downs Incorporated (the "Company") for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William C. Carstanjen, as Chief Executive Officer (Principal Executive Officer) of the Company, and Marcia A. Dall, as Executive Vice President and Chief Financial Officer (Principal Financial & Accounting Officer) of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his or her knowledge, that:

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

/s/ William C. Carstanjen

William C. Carstanjen
Chief Executive Officer
(Principal Executive Officer)
October 30, 2019

/s/ Marcia A. Dall

Marcia A. Dall
Executive Vice President and Chief Financial Officer
(Principal Financial & Accounting Officer)
October 30, 2019

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.