CHURCHILL DOWNS Inc
Form 10-Q
October 31, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
o 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
(Exact name of registrant as specified in its charter)

Kentucky	61-0156015
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
600 North Hurstbourne Parkway, Suite 400 Louisville, Kentucky 40222	(502) 636-4400
(Address of principal executive offices) (zip code)	(Registrant’s telephone number, including area code)

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 x No ¨
Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x 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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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 x
The number of shares outstanding of Registrant’s common stock at October 24, 2018 was 13,571,770 shares.

CHURCHILL DOWNS INCORPORATED
INDEX TO QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended September 30, 2018

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(in millions, except per common share data)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net revenue:				
Racing	$37.6	$38.8	$243.8	$228.0
TwinSpires	71.8	65.9	228.7	198.4
Casino	105.0	87.5	301.3	263.3
Other Investments	6.9	4.7	16.2	14.0
Total net revenue	221.3	196.9	790.0	703.7
Operating expense:				
Racing	43.9	40.8	165.1	153.7
TwinSpires	49.2	42.8	152.6	130.6
Casino	72.2	60.7	204.3	185.5
Other Investments	7.8	4.3	17.4	13.1
Corporate	0.6	0.6	1.7	1.8
Selling, general and administrative expense	21.7	19.9	63.2	58.7
Calder exit costs	—	0.2	—	0.8
Transaction expense, net	5.4	0.6	8.9	1.1
Total operating expense	200.8	169.9	613.2	545.3
Operating income	20.5	27.0	176.8	158.4
Other income (expense):				
Interest expense, net	(9.9)	(12.6)	(29.2)	(36.0)
Equity in income of unconsolidated investments	9.1	8.9	24.4	22.7
Gain on Ocean Downs/Saratoga transaction	54.9	—	54.9	—
Miscellaneous, net	0.1	0.1	0.5	0.8
Total other income (expense)	54.2	(3.6)	50.6	(12.5)
Income from continuing operations before provision for income taxes	74.7	23.4	227.4	145.9
Income tax provision	(16.7)	(10.3)	(52.1)	(57.9)
Income from continuing operations, net of tax	58.0	13.1	175.3	88.0
(Loss) income from discontinued operations, net of tax	(1.7)	3.6	166.1	14.3
Net income	$56.3	$16.7	$341.4	$102.3
Net income (loss) per common share data - basic:				
Continuing operations	$4.27	$0.85	$12.65	$5.53
Discontinued operations	$(0.12)	$0.24	$11.99	$0.90
Net income per common share data - basic:	$4.15	$1.09	$24.64	$6.43
Net income (loss) per common share data - diluted:				
Continuing operations	$4.24	$0.84	$12.58	$5.44
Discontinued operations	$(0.12)	$0.24	$11.92	$0.88
Net income per common share data - diluted:	$4.12	$1.08	$24.50	$6.32
Weighted average shares outstanding:				
Basic	13.6	15.3	13.8	15.9
Diluted	13.7	15.5	13.9	16.2
Other comprehensive income:				
Foreign currency translation, net of tax	$0.4	$0.5	$0.4	$0.1

Change in pension benefits, net of tax	0.2	0.1	—	0.1
Other comprehensive income	0.6	0.6	0.4	0.2
Comprehensive income	$56.9	$17.3	$341.8	$102.5

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

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions)	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 131.3	$ 51.7
Restricted cash	38.8	31.2
Accounts receivable, net	33.8	49.6
Income taxes receivable	—	35.6
Other current assets	26.4	18.9
Current assets of discontinued operations held for sale	—	69.1
Total current assets	230.3	256.1
Property and equipment, net	753.4	608.0
Investment in and advances to unconsolidated affiliates	107.9	171.3
Goodwill	337.8	317.6
Other intangible assets, net	264.8	169.4
Other assets	17.5	13.6
Long-term assets of discontinued operations held for sale	—	823.4
Total assets	$ 1,711.7	$ 2,359.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 60.1	$ 54.1
Purses payable	20.8	12.5
Account wagering deposit liabilities	29.7	24.0
Accrued expense	83.0	75.8
Income taxes payable	0.5	—
Current deferred revenue	12.8	70.9
Current maturities of long-term debt	4.0	4.0
Dividends payable	—	23.7
Current liabilities of discontinued operations held for sale	—	188.2
Total current liabilities	210.9	453.2
Long-term debt, net of current maturities and loan origination fees	388.2	632.9
Notes payable, net of debt issuance costs	492.9	492.3
Non-current deferred revenue	21.1	29.3
Deferred income taxes	66.4	40.6
Other liabilities	17.5	16.0
Non-current liabilities of discontinued operations held for sale	—	54.8
Total liabilities	1,197.0	1,719.1
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 0.3 shares authorized; no shares issued or outstanding	—	—
Common stock, no par value; 50.0 shares authorized; 13.6 shares issued and outstanding at September 30, 2018 and 15.4 shares at December 31, 2017	11.5	7.3
Retained earnings	504.1	634.3
Accumulated other comprehensive loss	(0.9)	(1.3)
Total shareholders' equity	514.7	640.3
Total liabilities and shareholders' equity	$ 1,711.7	$ 2,359.4

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)	2018	2017
Cash flows from operating activities:		
Net income	$341.4	$102.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45.8	73.3
Game technology and rights amortization	0.4	13.5
Acquisition expenses, net	—	1.7
Gain on sale of Big Fish Games	(219.5)	—
Gain on Ocean Downs/Saratoga transaction	(54.9)	—
Distributed earnings from equity investments	14.4	11.7
Big Fish Games earnout payment	(2.4)	(2.5)
Big Fish Games deferred payment	(2.0)	—
Equity in income of unconsolidated investments	(24.4)	(22.7)
Stock-based compensation	16.5	17.5
Deferred income taxes	24.7	(13.0)
Other	2.2	1.0
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of business acquisitions and dispositions:		
Game software development	(0.3)	(17.1)
Income taxes	31.2	24.5
Deferred revenue	(43.6)	(27.4)
Other assets and liabilities	5.9	4.4
Net cash provided by operating activities	135.4	167.2
Cash flows from investing activities:		
Capital maintenance expenditures	(19.9)	(26.7)
Capital project expenditures	(105.6)	(62.4)
Receivable from escrow	—	13.6
Acquisition of businesses, net of cash acquired	13.1	(23.1)
Proceeds from sale of Big Fish Games	970.7	—
Investment in joint venture	—	(24.0)
Other	(9.4)	(2.0)
Net cash provided by (used in) investing activities	848.9	(124.6)
Cash flows from financing activities:		
Proceeds from borrowings under long-term debt obligations	129.7	769.1
Repayments of borrowings under long-term debt obligations	(374.7)	(567.7)
Repayment of Ocean Downs debt	(54.7)	—
Big Fish Games earnout payment	(31.8)	(31.7)
Big Fish Games deferred payment	(26.4)	—
Payment of dividends	(23.5)	(21.8)
Repurchase of common stock	(514.7)	(181.1)
Other	(3.0)	1.5
Net cash used in financing activities	(899.1)	(31.7)
Net increase in cash, cash equivalents and restricted cash	85.2	10.9
Effect of exchange rate changes on cash flows	(0.6)	1.2

Cash, cash equivalents and restricted cash, beginning of period	85.5	83.0
Cash, cash equivalents and restricted cash, end of period	$170.1	$95.1

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

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

(in millions)	Nine Months Ended September 30, 2018	2017
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$26.1	$25.4
Income taxes	48.0	48.0
Schedule of non-cash investing and financing activities:		
Property and equipment additions included in accounts payable and accrued expenses	11.4	5.6
Acquisition of Ocean Downs, net of cash acquired	115.2	—

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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, 2017 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP.

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

The Big Fish Games segment and related Big Fish Transaction meet the criteria for held for sale and discontinued operation presentation. Accordingly, the condensed consolidated statements of comprehensive income, condensed consolidated balance sheets, and the notes to financial statements reflect the Big Fish Games segment as discontinued operations for all periods presented. Unless otherwise specified, disclosures in these 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.

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

As part of the Ocean Downs/Saratoga Transaction, Saratoga Harness Racing, Inc. ("SHRI") has agreed to grant the Company and its affiliates exclusive rights to operate online real-money sports betting and real-money iGaming on behalf of SHRI in New York and Colorado for a period of fifteen years from the date of the Liquidation Agreement, should such states permit SHRI to engage in sports betting and iGaming, subject to payment of commercially reasonable royalties to SHRI. Refer to Note 6, Acquisitions, for further information on the Ocean Downs/Saratoga Transaction.

In August 2018, we launched our BetAmerica Sportsbook at our two Mississippi properties included in our Casino segment.

In September 2018, we opened our new $65.0 million, 85,000 square-foot, state-of-the-art historical racing machine facility, Derby City Gaming, in Louisville, Kentucky, which is included in our Other Investments segment.

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, 2017.

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.

Seasonality

Racing

Due to the seasonal nature of our live 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, we have had fewer live racing days during the first quarter of each year, and the majority of our live racing revenue occurs during the second quarter, with the running of the Kentucky Derby and the Kentucky Oaks. We conducted 56 live thoroughbred race days in the third quarter of 2018, compared to 57 live thoroughbred race days during the third quarter of 2017. For the nine months ended September 30, 2018, we conducted 174 live thoroughbred race days, compared to 176 live thoroughbred race days during the nine months ended September 30, 2017.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

TwinSpires
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.
Casino
Revenue from our casino properties 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, 2018
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASC 606") which provides a five-step analysis of transactions to determine when and how revenue is recognized. We adopted ASC 606 on January 1, 2018 using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been retrospectively adjusted and continues to be reported under the accounting standards in effect for those periods. We expect the adoption of the new revenue standard will not have a material impact on our net income on an ongoing basis in future periods.
The cumulative effects of the changes made to our condensed consolidated balance sheet as of January 1, 2018 for the adoption of ASC 606 were as follows:

(in millions)	As Reported at December 31, 2017	Adoption of ASC 606	Balance at January 1, 2018
ASSETS			
Accounts receivable, net	$ 49.6	$ (21.8)	$ 27.8
Income taxes receivable	35.6	(4.1)	31.5
Current assets of discontinued operations held for sale	69.1	0.7	69.8
Other assets	13.6	(1.1)	12.5
LIABILITIES			
Accrued expense	75.8	0.8	76.6
Current deferred revenue	70.9	(18.9)	52.0
Current liabilities of discontinued operations held for sale	188.2	(38.8)	149.4
Non-current deferred revenue	29.3	(4.5)	24.8
Deferred income taxes	40.6	(0.1)	40.5
Non-current liabilities of discontinued operations held for sale	54.8	5.5	60.3
SHAREHOLDERS' EQUITY			
Retained earnings	634.3	29.7	664.0

There were two primary changes to our condensed consolidated balance sheet resulting from the adoption of ASC 606. The most significant change was in current and non-current liabilities of discontinued operations held for sale and retained earnings related to breakage revenue for outstanding Big Fish Game Club credits. The other primary change was in accounts receivable, net of allowance for doubtful accounts, current deferred revenue, and non-current deferred revenue related to the timing of when we have a right to consideration under our contracts.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In accordance with ASC 606 requirements, the disclosure of the impact of adoption on our condensed consolidated balance sheet was as follows:

(in millions)	At September 30, 2018 As Reported	Balances without Adoption of ASC 606	Effect of Change Increase/(Decrease)
ASSETS			
Accounts receivable, net	$33.8	$ 37.0	$ (3.2)
Other assets	17.5	18.0	(0.5)
LIABILITIES			
Accrued expense	83.0	82.1	0.9
Income taxes payable	0.5	0.3	0.2
Current deferred revenue	12.8	16.7	(3.9)
Non-current deferred revenue	21.1	22.4	(1.3)
Deferred income taxes	66.4	66.2	0.2
SHAREHOLDERS' EQUITY			
Retained earnings	504.1	503.9	0.2

The adoption of ASC 606 had no impact on cash provided by or used in operating, financing, or investing activities on our condensed consolidated statement of cash flows for the nine months ended September 30, 2018. As part of the transition to ASC 606 on January 1, 2018, there have been certain modifications between the classification of net revenue and operating expenses in the TwinSpires segment in the current period. The impact of adopting ASC 606 on our condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2018 was not material.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash ("ASU 2016-18"). The new standard requires that the statement of cash flows explain the change during the period of cash, cash equivalents, and amounts generally described as restricted cash. Entities are also required to reconcile the cash, cash equivalents, and restricted cash in the statement of cash flows to the balance sheet and disclose the nature of the restrictions on restricted cash. We adopted ASU 2016-18 on January 1, 2018 using the retrospective method. As a result, we began including amounts generally described as restricted cash with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. We adjusted our condensed consolidated statement of cash flows for the nine months ended September 30, 2017 from amounts previously reported due to the adoption of ASU 2016-18. The effects of adopting ASU 2016-18 on our condensed consolidated statement of cash flows were as follows:

(in millions)	Nine Months Ended September 30, 2017 As Previously Reported	Adoption of ASU 2016-18	As Adjusted
Net cash provided by operating activities	$164.2	$ 3.0	$ 167.2
Cash, cash equivalents and restricted cash, beginning of period	$48.7	$ 34.3	$ 83.0

Net increase in cash, cash equivalents and restricted cash	7.9	3.0	10.9
Effect of exchange rate changes on cash	1.2	—	1.2
Cash, cash equivalents and restricted cash, end of period	$57.8	$ 37.3	$ 95.1

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The new guidance reduces diversity in practice in how certain transactions are classified in the statement of cash flows. We adopted the new guidance on January 1, 2018 and it did not have a material impact on our consolidated results of operations, financial condition, or cash flows. We will utilize the cumulative earnings approach under the ASU to present distributions received from equity method investees which is consistent with our previous existing policy.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"), which allows an entity to make an election to reclassify amounts from accumulated other comprehensive income to retained earnings for stranded tax effects resulting

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

from the Tax Cuts and Jobs Act (the "Tax Act"). We early adopted ASU 2018-02 on January 1, 2018 at the beginning of the period of adoption and elected to reclassify the income tax effects of the Tax Act from accumulated other comprehensive income to retained earnings. The adoption of ASU 2018-02 did not have a material impact on our consolidated results of operations, financial condition, or cash flows.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting, which provides clarity about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting for stock compensation expense. The guidance became effective in 2018 and is to be applied prospectively. We adopted the new guidance on January 1, 2018 and it did not have a material impact on our consolidated results of operations, financial condition, or cash flows.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations: Clarifying the Definition of a Business, in an effort to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance became effective in 2018 and is to be applied prospectively. We adopted the new guidance on January 1, 2018 and it did not have a material impact on our consolidated results of operations, financial condition, or cash flows.

Recent Accounting Pronouncements - effective in 2019 or thereafter

In February 2016, the FASB issued ASU No. 2016-02, Leases, and subsequently has issued additional guidance (collectively, “ASC 842”) which requires companies to generally recognize on the balance sheet, operating and financing lease liabilities and corresponding right-of-use assets. The new guidance is effective on January 1, 2019 with early adoption permitted. ASC 842 may be applied at the beginning of the earliest comparative period in the financial statements or at the effective date by recognizing a cumulative effect adjustment in the period of adoption with comparative periods being reported under the accounting standards in effect for those periods. The modified transition method must be used when adopting ASC 842. We are planning to adopt ASC 842 on January 1, 2019 by recognizing a cumulative effect adjustment at that date and reporting comparative periods under the accounting standards in effect for those periods. We are in the process of aggregating our lease contracts and evaluating them under the new standard. We currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of ASC 842. We plan to elect the package of practical expedients that allows us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. We do not expect the adoption of ASC 842 to have a material effect on our results of operations or cash flows.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other: Internal-Use Software, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance also requires an entity to expense the capitalized implementation costs of a hosting arrangement over the term of the hosting arrangement. The guidance is effective in 2020 with early adoption permitted and may be applied prospectively or retrospectively. We are assessing the impact of the new accounting guidance and currently cannot estimate the financial statement impact of adoption.

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

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment. This new guidance simplifies the accounting for goodwill impairments by removing step two from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. The new guidance is effective in 2020 with early adoption permitted for any goodwill impairment test performed between January 1, 2017 and January 1, 2020, and is to be applied prospectively. We are currently evaluating the timing of our adoption and impact of the new accounting guidance on our financial statements and related disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the accounting policies for revenue recognition, casino and pari-mutuel taxes, and restricted cash, all of which were updated as a result of our recently adopted accounting pronouncements on January 1, 2018, 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, 2017, that have had a material impact on our condensed consolidated financial statements and related notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Revenue Recognition
Racing
Racing revenue is generated by pari-mutuel wagering transactions with customers on live and simulcast racing content as well as simulcast host fees earned from other wagering sites. Additionally, we generate revenue through sponsorships, admissions (including luxury suites), personal seat licenses ("PSLs"), television rights, concessions, programs and parking.
Our Racing revenue and income are influenced by our racing calendar. Therefore, revenue and operating results for any interim quarter are not generally indicative of the revenue and operating results for the year and may not be comparable with results for the corresponding period of the previous year. We historically have had fewer live racing days during the first quarter of each year, and the majority of our live racing revenue occurs during the second quarter with the running of the Kentucky Oaks and Kentucky Derby.
For live races we present at our racetracks, we recognize revenue on wagers we accept from customers at our racetrack ("on-track revenue") and revenue we earn from exporting our live racing signals to other race tracks, off-track betting facilities ("OTBs"), and advance deposit wagering providers ("export revenue"). For simulcast races we display at our racetracks, OTBs, and TwinSpires, we recognize revenue we earn from providing a wagering service to our customers on these imported live races ("import revenue"). Each wagering contract for on-track revenue and import revenue contains a single performance obligation and our export revenue contracts contain a series of distinct services that form a single performance obligation. The transaction price for on-track revenue and import revenue is fixed based on the established commission rate we are entitled to retain. The transaction price for export revenue is variable based on the simulcast host fee we charge our customers for exporting our signal. Our export revenue contracts generally have a duration of one year or less. These arrangements are licenses of intellectual property containing a usage based royalty. As a result, we have elected to use the practical expedient to omit disclosure related to remaining performance obligations for our export revenue contracts. We recognize on-track revenue, export revenue, and import revenue once the live race event is made official by the relevant racing regulatory body.
We evaluate our on-track revenue, export revenue, and import revenue contracts in order to determine whether we are acting as the principal or as the agent when providing services, which we consider in determining if revenue should be reported gross or net. An entity is a principal if it controls the specified service before that service is transferred to a customer.
The revenue we recognize for on-track revenue and import revenue is the commission we are entitled to retain for providing a wagering service to our customers. For these arrangements, we are the principal as we control the wagering service; therefore, any charges, including simulcast fees, we incur for delivering the wagering service are presented as operating expenses.
For export revenue, our customer is the third party wagering site such as a race track, OTB, or advance deposit wagering provider. Therefore, the revenue we recognize for export revenue is the simulcast host fee we earn for exporting our racing signal to the third party wagering site.
Our admission contracts are either for a single live racing event day or multiple days. Our PSLs, sponsorships, and television rights contracts generally relate to multiple live racing event days. Multiple day admission, PSLs, sponsorships, and television rights contracts contain a distinct series of services that form single performance obligations. Sponsorships contracts generally include performance obligations related to admissions and advertising rights at our racetracks. Television rights contracts contain a performance obligation related to the rights to distribute certain live racing events on media platforms. The transaction prices for our admissions, PSLs, sponsorships, and television rights contracts are fixed. We allocate the transaction price to our sponsorship contract performance obligations based on the estimated relative standalone selling price of each distinct service.
The revenue we recognize for admissions to a live racing event day is recognized once the related event is complete. For admissions, PSLs, sponsorships, and television rights contracts that relate to multiple live racing event days, we recognize revenue over time using an output method of each completed live racing event day as our measure of

progress. Each completed live racing event day corresponds with the transfer of the relevant service to a customer and therefore is considered a faithful depiction of our efforts to satisfy the promises in these contracts. This output method results in measuring the value transferred to date to the customer relative to the remaining services promised under the contracts. Certain premium live racing event days such as the Kentucky Derby and Oaks result in a higher value of revenue allocated relative to other live racing event days due to, among other things, the quality of thoroughbreds racing, higher levels of on-track attendance, national broadcast audience, local and national media coverage, and overall entertainment value of the event.

Timing of revenue recognition may differ from the timing of invoicing to customers for our long-term contracts in our Racing segment. We generally invoice customers prior to delivery of services for our admissions, PSLs, sponsorships, and television rights contracts. Accordingly, we recognize a receivable and a contract liability at the time we have an unconditional right to receive payment. When cash is received in advance of delivering services under our contracts, we defer revenue and recognize it in accordance with our policies for that type of contract. In situations where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts do not include a significant financing component. The primary purpose of

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our invoicing terms is to allow our customers to secure the right to the specific services provided under our contracts, not to receive financing from our customers.

Concessions, programs, and parking revenue is recognized once the good or service is delivered.

TwinSpires

TwinSpires revenue is generated through pari-mutuel wagering transactions with customers on simulcast racing content through advance deposit wagering. Advance deposit wagering consists of patrons wagering through an advance deposit account.

Our TwinSpires revenue and income are influenced by racing calendars similar to our Racing segment. Therefore, revenue and operating results for any interim quarter are not generally indicative of the revenue and operating results for the year and may not be comparable with results for the corresponding period of the previous year.

We recognize import revenue in our TwinSpires segment consistent with our policy described in Racing.

We may provide cash incentives in conjunction with wagering transactions we accept from customers. These cash incentives represent consideration payable to a customer and therefore are treated as a reduction of the transaction price for the wagering transaction.

Casino

Casino revenue primarily consists of gaming wager transactions. Other operating revenue, such as food and beverage or hotel revenue, is recognized once delivery of the product or service has occurred.

The transaction price for gaming wager transactions is the difference between gaming wins and losses. The majority of our casinos offer loyalty programs that enable customers to earn loyalty points based on their gaming play. Gaming wager transactions involve two performance obligations for those customers earning loyalty points under the Company’s loyalty programs and a single performance obligation for customers who do not participate in the program. Loyalty points are primarily redeemable for free gaming activities and food and beverage. For purposes of allocating the transaction price in a wagering transaction between the wagering performance obligation and the obligation associated with the loyalty points earned, the Company allocates an amount to the loyalty point contract liability based on the stand-alone selling price of the points earned, which is determined by the value of a loyalty point that can be redeemed for gaming activities or food and beverage. An amount is allocated to the gaming wager performance obligation using the residual approach as the stand-alone price for wagers is highly variable and no set established price exists for such wagers. The allocated revenue for gaming wagers is recognized when the wagers settle. The loyalty point contract liability amount is deferred and recognized as revenue when the customer redeems the points for a gaming wagering transaction or food and beverage and such goods or services are delivered to the customer.

Casino and Pari-mutuel Taxes

We recognize casino and pari-mutuel tax expense based on the statutory requirements of the federal, state, and local jurisdictions in which we conduct business. All of our casino taxes and the majority of our pari-mutuel taxes are gross receipts taxes levied on the gaming entity. We recognize these taxes as Racing, TwinSpires and Casino operating expenses in our consolidated statements of comprehensive income. In certain jurisdictions governing our Racing and TwinSpires pari-mutuel contracts with customers, there are specific pari-mutuel taxes that are assessed on winning wagers from our customers, which we collect and remit to the government. These taxes are presented on a net basis.

Restricted Cash and Account Wagering Deposit Liabilities

Amounts included in restricted cash represent amounts due to horsemen for purses, stakes and awards that are paid in accordance with the terms of our contractual agreements or statutory requirements. Restricted cash also includes deposits collected from our TwinSpires segment customers for account wagering that are paid when customers withdraw cash from their account.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

Performance Obligations

As of September 30, 2018, our Racing segment had remaining performance obligations with an aggregate transaction price of $183.6 million. The revenue we expect to recognize on these remaining performance obligations is $1.1

million for the remainder of 2018, $46.8 million in 2019, $35.7 million in 2020, and the remainder thereafter.
As of September 30, 2018, our remaining performance obligations in segments other than Racing were not material.

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Contract Assets and Contract Liabilities

As of January 1, 2018 and September 30, 2018, contract assets were not material.

As of January 1, 2018 and September 30, 2018, contract liabilities were $78.7 million and $37.5 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 our Racing segment and the decrease was primarily due to revenue recognized for fulfilled performance obligations. We recognized $1.2 million of revenue during the three months ended September 30, 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

To determine how we disaggregate our revenue from contracts with customers, we consider the information regularly reviewed by our chief operating decision maker for evaluating the financial performance of operating segments, disclosures presented in our earnings releases, and other similar information that is used by the Company and users of our financial statements to evaluate our financial performance. We believe that the disaggregation of our revenue included in Note 15, Segment Information, coupled with the disclosures included in Note 3, Significant Accounting Policies, reflects these considerations and depicts how the nature, timing, and uncertainty of revenue and cash flows are affected by economic factors.

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:

(in millions)	
Cash and cash equivalents	$0.3
Accounts receivable	34.7
Game software development, net	6.7
Other current assets	17.0
Property and equipment, net	17.8
Game software development, net	13.8
Goodwill	530.7
Other intangible assets, net	238.4
Other assets	24.0
Accounts payable	(8.5)
Accrued expense	(22.6)
Deferred revenue	(44.2)
Deferred income taxes	(52.0)
Other liabilities	(4.9)
Carrying value of Big Fish Games	$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 nine months ended September 30, 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 millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net revenue	$—	$118.0	$13.2	$342.5
Operating expenses	—	95.3	8.4	271.5
Selling, general and administrative expense	0.7	6.7	5.6	18.9
Research and development	—	9.8	0.9	30.0
Transaction expense, net	—	0.2	—	0.6
Total operating expense	0.7	112.0	14.9	321.0
Operating (loss) income	(0.7)	6.0	(1.7)	21.5
Other income (expense)				
Gain on sale of Big Fish Games	—	—	219.5	—
Other expense	—	(1.2)	(0.1)	(1.6)
Total other income (loss)	—	(1.2)	219.4	(1.6)
(Loss) income from discontinued operations before provision for income taxes	(0.7)	4.8	217.7	19.9
Income tax provision	(1.0)	(1.2)	(51.6)	(5.6)
(Loss) income from discontinued operations, net of tax	$(1.7)	$3.6	$166.1	$14.3

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. ACQUISITIONS

Ocean Downs

On July 16, 2018, the Company announced its entry into the Liquidation Agreement for the Ocean Downs/Saratoga Transaction. As part of the Ocean Downs/Saratoga Transaction, SHRI has agreed to grant the Company and its affiliates exclusive rights to operate online real-money sports betting and real-money 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, and therefore consolidated Ocean Downs as of the acquisition date. Upon the closing of the Ocean Downs/Saratoga Transaction, the Company no longer has an equity interest or management involvement in Saratoga New York or Saratoga Colorado. Prior to the Ocean Downs/Saratoga Transaction, the Company held an effective 62.5% ownership interest in Ocean Downs, and a 25% ownership interest in Saratoga New York and Saratoga Colorado, all of which were accounted for under the equity method. The consideration transferred to SCH to acquire the remaining interest in Ocean Downs were the Company's equity investments in Saratoga New York and Saratoga Colorado, which had a fair value of $47.8 million at the acquisition date. Under the acquisition method, the fair values of the consideration transferred and the Company's equity method investment in Ocean Downs, which had a fair value of $80.5 million at the acquisition date, were allocated to the assets acquired and liabilities assumed in the Ocean Downs/Saratoga Transaction. The Company's carrying values in these equity method investments were significantly less than their fair values, resulting in a pre-tax gain of $54.9 million, which is included in the accompanying condensed consolidated statements of comprehensive income. The fair value of the Company's equity method investments in Ocean Downs, Saratoga New York, and Saratoga Colorado were determined under the market and income valuation

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approaches using inputs primarily related to discounted projected cash flows and price multiples of publicly traded comparable companies.

The fair values of the Ocean Downs/Saratoga Transaction were based upon preliminary valuations. Estimates and assumptions used in such valuations are subject to change, which could be significant, within the measurement period up to one year from the acquisition date. The primary areas of the preliminary valuations that are not yet finalized relate to the fair value of amounts for income taxes and the final amount of residual goodwill. The Company expects to continue to obtain information to assist in determining the fair values of the net assets acquired at the acquisition date during the measurement period. The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed, net of cash acquired of $13.1 million, at the date of the acquisition.

(in millions)	Total
Current assets	$2.1
Property and equipment	57.4
Goodwill	20.2
Intangible assets	95.4
Current liabilities	(5.2)
Debt	(54.7)
	$115.2

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

(in millions)	Fair Value Recognized	Weighted-Average Useful Life
Gaming rights	$ 87.0	N/A
Tradename	8.3	N/A
Other	0.1	1.3 years
Total intangible assets	$ 95.4	

Current assets and current liabilities were valued at the existing carrying values as they are short term in nature and represented management's estimated fair value of the respective items at August 31, 2018. The debt of $54.7 million assumed by the Company was valued at its outstanding principal balance which approximated fair value at August 31, 2018. The Company subsequently paid off the debt in full on September 4, 2018.

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

The fair value of the Ocean Downs gaming rights was determined using the Greenfield Method, which is an income approach methodology that calculates the present value of the overall business enterprise based on a projected cash flow stream. This method assumes that the gaming rights intangible asset provides the opportunity to develop a casino in a specified region, and that the present value of the projected cash flows are a result of the realization of advantages contained in these rights. Under this methodology, the acquirer is expected to absorb all start-up costs, as well as incur all expenses pertaining to the acquisition and/or the creation of all tangible and intangible assets. The estimated future revenue and operating expenses and start-up costs of Ocean Downs were the primary inputs in the valuation. The gaming rights intangible asset was assigned an indefinite useful life based on the Company's expected use of the asset and determination that no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of the gaming rights. The renewal of the gaming rights in Maryland is subject to various legal requirements. However, the Company's historical experience has not indicated, nor does the Company expect, any limitations regarding its ability to continue to renew its gaming rights in Maryland.

The tradename 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 tradename was assigned an indefinite useful life based on the Company’s intention to keep the Ocean Downs name for an indefinite period of time. Goodwill of $20.2 million was recognized due to the expected contribution of Ocean Downs to the Company's overall business strategy. The goodwill was assigned to the Casino segment and is not deductible for tax purposes.

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In connection with the Ocean Downs/Saratoga Transaction, the Company recorded a deferred tax liability and income tax expense of $12.6 million. The deferred tax liability represents the excess of the financial reporting amounts of the net assets of Ocean Downs over their respective basis under U.S., state, and local tax law expected to be applied to taxable income in the periods such differences are expected to be realized.

For the period from the Ocean Downs/Saratoga Transaction on September 1 through September 30, 2018, net revenue was $8.1 million, and net income was not material for the period.

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, 2017 and excludes the gain recognized from the Ocean Downs/Saratoga Transaction. The unaudited pro forma financial information is not necessarily indicative of either future results of operations or results of operations that might have been achieved had the acquisition been consummated as of January 1, 2017.

	Company Pro Forma Information			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Net revenue	$240.2	$218.7	$845.7	$754.8
Net income	15.5	18.2	302.4	104.1

Presque Isle and Nemacolin

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

On July 6, 2018, the Company and ERI mutually agreed to terminate the asset purchase agreement with respect to the Lady Luck Vicksburg Transaction (the "Termination Agreement"). Concurrently with the entry into the Termination Agreement, the Company and ERI also entered into an amendment to the previously announced asset purchase agreement relating to the Presque Isle Transaction (the "Amendment"). Pursuant to the Amendment, the Company and ERI agreed to, among other things, cooperate in good faith, subject to certain conditions, to enter into an agreement pursuant to which the Company, for cash consideration of $100,000, will assume the rights and obligations of an affiliate of ERI to operate the Lady Luck Casino Nemacolin in Farmington, Pennsylvania (the "Lady Luck Nemacolin Transaction"). The Presque Isle Transaction reflects a stand-alone purchase price of $178.9 million. Closing of the Presque Isle Transaction was also conditioned on the execution of the definitive agreement with respect to the Lady Luck Nemacolin Transaction, which occurred on August 10, 2018 (the "Lady Luck Nemacolin Agreement"). Subject to receipt of Pennsylvania regulatory approvals and other customary closing conditions, the Presque Isle Transaction and the Lady Luck Nemacolin Transaction are expected to close in the first quarter of 2019.

Upon the execution of the Lady Luck Nemacolin Agreement and pursuant to the Termination Agreement, the Company paid ERI a termination fee of $5.0 million, which is included in "Transaction expense, net" in the accompanying condensed consolidated statements of comprehensive income.

BetAmerica

On April 24, 2017, we completed the acquisition of certain assets of BAM Software and Services, LLC ("BetAmerica"), which has not had a material impact on our results of operations, financial condition or cash flows. The Company has not included other disclosures regarding BetAmerica because the acquired business is immaterial to our business.

7. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

As of September 30, 2018 and as a result of the Ocean Downs/Saratoga Transaction, the Company's only equity investments were the 50% joint venture ownership in Miami Valley Gaming ("MVG") in Lebanon, Ohio and other equity investments that are not material. As further discussed in Note 6, Acquisitions, the Company closed the acquisition of the remaining 50% ownership of Ocean Downs owned by SCH in exchange for liquidating the Company's 25% equity interest in SCH, which is the parent company of Saratoga New York and Saratoga Colorado. Upon closing of the Ocean Downs/Saratoga Transaction on August 31, 2018, the Company owns 100% of Ocean Downs and has no equity interest or management involvement in Saratoga New York or Saratoga Colorado. Prior to August 31, 2018, Ocean Downs was accounted for under the equity method.

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Summarized below are the financial results for our unconsolidated affiliates:

(in millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net revenue	$105.2	$128.4	$322.1	$340.9
Operating and SG&A expense	76.4	97.9	240.5	263.3
Depreciation and amortization	5.9	5.2	19.0	16.1
Total operating expense	82.3	103.1	259.5	279.4
Operating income	22.9	25.3	62.6	61.5
Interest and other, net	(1.0)	0.3	(5.6)	(4.7)
Net income	$21.9	$25.6	$57.0	$56.8

(in millions)	September 30, 2018	December 31, 2017
Assets		
Current assets	$ 21.5	$ 64.5
Property and equipment, net	98.0	234.6
Other assets, net	107.0	236.5
Total assets	$ 226.5	$ 535.6
Liabilities and Members' Equity		
Current liabilities	$ 19.3	$ 100.3
Long-term debt	1.6	110.1
Other liabilities	0.1	0.1
Members' equity	205.5	325.1
Total liabilities and members' equity	$ 226.5	$ 535.6

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is comprised of the following:

(in millions)	Racing	TwinSpires	Casino	Total
Balances as of December 31, 2017	$ 51.7	$ 148.2	$117.7	$317.6
Ocean Downs/Saratoga Transaction	—	—	20.2	20.2
Balances as of September 30, 2018	$ 51.7	$ 148.2	$137.9	$337.8

We performed our annual goodwill impairment analysis as of April 1, 2018 and no adjustment to the carrying value of goodwill was required. We assessed goodwill for impairment by performing step one fair value calculations on a quantitative basis for each reporting unit. We concluded that the fair values of our reporting units exceeded their carrying value and therefore step two of the assessment was not required.

Other intangible assets are comprised of the following:

	September 30, 2018			December 31, 2017		
(in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets	$42.3	$ (23.0)	$ 19.3	$39.8	$ (20.6)	$ 19.2
Indefinite-lived intangible assets			245.5			150.2
Total			$ 264.8			$ 169.4

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We performed our annual indefinite-lived intangible assets impairment analysis as of April 1, 2018, which included an assessment of qualitative and quantitative factors to determine whether it is more likely than not that the fair values of the indefinite-lived 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 step two of the assessment was not required.

9. INCOME TAXES

The Company’s 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 vesting of restricted stock units in excess of book deductions.

The Company’s income tax rate for the three and nine months ended September 30, 2017 was higher than the U.S. federal statutory rate of 35.0% 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 credits and tax deductions from vesting of restricted stock units in excess of book deductions.

10. 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 table presents our assets and liabilities measured at fair value on a recurring basis:

	Level 1	
(in millions)	September 30, 2018	December 31, 2017
Restricted cash	$ 38.8	$ 31.2

Our restricted cash that is 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.

We currently have no other assets or liabilities subject to fair value measurement on a recurring basis. Our 4.75% Senior Notes due 2028 (the "Senior Notes") are disclosed at fair value which is based on unadjusted quoted prices for similar liabilities in markets that are not active. The fair value of the Senior Notes was $466.9 million at September 30, 2018 and $496.8 million at December 31, 2017.

The carrying amounts of the borrowings under the $700.0 million revolving credit facility and $400.0 million Senior Secured Term Loan B due 2024 (the "2017 Credit Agreement") approximate fair value, based upon current interest rates, representing a Level 2 fair value measurement.

Refer to Note 6, Acquisitions, for assets and liabilities measured at fair value using Level 2 and Level 3 inputs on a non-recurring basis in connection with the Ocean Downs/Saratoga Transaction.

11. SHAREHOLDERS’ EQUITY

On November 29, 2017, the Board of Directors of the Company authorized a $500.0 million share repurchase program in a "modified Dutch auction" tender offer utilizing a portion of the proceeds from the Big Fish Transaction. The Company completed the tender offer on February 12, 2018, and repurchased 1,886,792 shares of the Company's common stock at a purchase price of $265 per share with an aggregate cost of $500.0 million, excluding fees and expenses related to the tender offer.

12. 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 $3.9 million for the three months ended September 30, 2018 and 2017. Stock-based compensation expense was $13.1 million for the nine months ended September 30, 2018 and

$11.7 million for the nine months ended September 30, 2017.
During the nine months ended September 30, 2018, 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 2018 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

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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 2018 is presented below:

Grant Year	Award Type	Number of Shares/Units Awarded (in thousands)	Vesting Terms
2018	RSA	18	Vest equally over three service periods ending in February of 2019, 2020, and 2021
2018	RSU	16	Vest equally over three service periods ending December 31 of 2018, 2019, and 2020
2018	PSU	16	Three year performance and service period ending December 31, 2020
2018	RSU	3	One year service period ending in April 2019

13. 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.

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14. NET INCOME PER COMMON SHARE COMPUTATIONS

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

(in millions, except per share data)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Numerator for basic net income per common share:				
Net income from continuing operations	$58.0	$13.1	$175.3	$88.0
Net loss from continuing operations allocated to participating securities	—	—	—	(0.1)
Net (loss) income from discontinued operations	(1.7)	3.6	166.1	14.3
Numerator for basic net income per common share	$56.3	$16.7	$341.4	$102.2
Numerator for diluted net income from continuing operations per common share	$58.0	$13.1	$175.3	$88.0
Numerator for diluted net income per common share:	$56.3	$16.7	$341.4	$102.3
Denominator for net income per common share:				
Basic	13.6	15.3	13.8	15.9
Plus dilutive effect of stock awards	0.1	0.2	0.1	0.2
Plus dilutive effect of participating securities	—	—	—	0.1
Diluted	13.7	15.5	13.9	16.2
Net income (loss) per common share data:				
Basic				
Continuing operations	$4.27	$0.85	$12.65	$5.53
Discontinued operations	$(0.12)	$0.24	$11.99	$0.90
Net income per common share - basic	$4.15	$1.09	$24.64	$6.43
Diluted				
Continuing operations	$4.24	$0.84	$12.58	$5.44
Discontinued operations	$(0.12)	$0.24	$11.92	$0.88
Net income per common share - diluted	$4.12	$1.08	$24.50	$6.32

15. SEGMENT INFORMATION

We manage our operations through five operating segments:

- Racing, which includes Churchill Downs Racetrack ("Churchill Downs"), Arlington International Race Course ("Arlington"), Fair Grounds Race Course ("Fair Grounds") and Calder Race Course ("Calder");
- TwinSpires, which includes TwinSpires.com, Fair Grounds Account Wagering, Velocity, BetAmerica and Bloodstock Research Information Services;
- Casino, which includes Oxford Casino ("Oxford"), Riverwalk Casino ("Riverwalk"), Harlow's Casino ("Harlow’s"), Calder Casino, Fair Grounds Slots, Video Services, LLC ("VSI"), 50% equity investment in MVG, 50% equity investment in Ocean Downs and 25% equity investment in SCH, which includes investments in Saratoga Casino Hotel, Saratoga Casino Black Hawk and Ocean Downs. On August 31, 2018, the Company completed the Ocean Downs/Saratoga Transaction, which resulted in the Company's 100% ownership of Ocean Downs, and no further equity interest or management involvement in Saratoga New York or Saratoga Colorado.
- Other Investments, which includes United Tote, Derby City Gaming and other minor investments; and
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Corporate, which includes miscellaneous and other revenue, compensation expense, professional fees and other general and administrative expense not allocated to our other operating segments.

Big Fish Games is a global producer and distributor of social casino, casual and mid-core free-to-play, and premium paid games for PC, Mac and mobile devices. On January 9, 2018, we closed the Big Fish Transaction, at which time Big Fish Games ceased to be an operating segment. Due to the Big Fish Transaction, the Company has presented Big Fish Games as held for sale and

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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discontinued operations in the accompanying condensed consolidated financial statements and these notes. The Company has not allocated corporate and other certain expenses to Big Fish Games consistent with the discontinued operations presentation in the accompanying condensed consolidated statements of comprehensive income. Accordingly, the prior year amounts were 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 the EBITDA from our equity investments.

Adjusted EBITDA excludes:

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

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

The tables below present net revenue from external customers and intercompany revenue from each of our operating segments, adjusted EBITDA by segment and reconciles comprehensive income to adjusted EBITDA:

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(in millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net revenue from external customers:				
Racing:				
Churchill Downs	$8.5	$8.1	$165.4	$147.1
Arlington	23.7	25.0	49.7	51.5
Fair Grounds	4.8	5.0	26.8	27.5
Calder	0.6	0.7	1.9	1.9
Total Racing	37.6	38.8	243.8	228.0
TwinSpires	71.8	65.9	228.7	198.4
Casino:				
Oxford Casino	28.9	25.2	79.3	69.2
Calder Casino	23.4	19.4	73.0	62.6
Riverwalk Casino	12.8	12.2	40.8	35.7
Harlow's Casino	12.1	12.3	37.9	38.3
VSI	10.6	9.3	32.7	28.8
Fair Grounds Slots	9.1	8.7	28.9	27.7
Ocean Downs	8.1	—	8.1	—
Saratoga	—	0.4	0.6	1.0
Total Casino	105.0	87.5	301.3	263.3
Other Investments	6.9	4.7	16.2	14.0
Net revenue from external customers	$221.3	$196.9	$790.0	$703.7

(in millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Intercompany net revenue:				
Racing:				
Churchill Downs	$1.0	$0.9	$10.7	$9.6
Arlington	2.3	2.2	5.6	5.1
Fair Grounds	—	—	1.1	1.0
Calder	0.1	—	0.1	—
Total Racing	3.4	3.1	17.5	15.7
TwinSpires	0.3	0.2	1.1	0.8
Other Investments	0.9	1.0	3.6	3.7
Eliminations	(4.6)	(4.3)	(22.2)	(20.2)
Intercompany net revenue	$—	$—	$—	$—

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Adjusted EBITDA by segment is comprised of the following:

	Three Months Ended September 30, 2018				
(in millions)	Racing	TwinSpires	Casino	Other Investments	Corporate
Net revenue	$41.0	$ 72.1	$105.0	$ 7.8	$ —
Taxes & purses	(11.0)	(4.2)	(36.0)	(0.7)	—
Marketing & advertising	(1.2)	(0.6)	(3.4)	(0.1)	—
Salaries & benefits	(10.6)	(2.1)	(14.6)	(3.4)	—
Content expense	(3.4)	(37.3)	—	—	—
SG&A expense	(4.2)	(2.9)	(6.2)	(1.2)	(2.6)
Other operating expense	(11.8)	(5.7)	(11.8)	(1.3)	(0.2)
Other income	—	—	12.7	—	—
Adjusted EBITDA	$(1.2)	$ 19.3	$45.7	$ 1.1	$ (2.8)

	Three Months Ended September 30, 2017				
(in millions)	Racing	TwinSpires	Casino	Other Investments	Corporate (a)
Net revenue	$41.9	$ 66.1	$87.5	$ 5.7	$ —
Taxes & purses	(11.2)	(4.5)	(28.9)	—	—
Marketing & advertising	(1.0)	(1.1)	(3.1)	—	—
Salaries & benefits	(10.3)	(2.3)	(13.5)	(2.9)	—
Content expense	(3.8)	(30.9)	—	—	—
SG&A expense	(3.9)	(3.2)	(5.5)	(0.8)	(3.1)
Other operating expense	(10.1)	(5.3)	(9.8)	(1.1)	0.1
Other income	0.1	—	12.8	0.2	—
Adjusted EBITDA	$1.7	$ 18.8	$39.5	$ 1.1	$ (3.0)

(a) The Corporate segment includes corporate and other certain expenses of $0.7 million for the three months ended September 30, 2017 that have not been allocated to Big Fish Games as a result of the Big Fish Transaction. The Big Fish Games segment is reported as held for sale and discontinued operations in the accompanying condensed consolidated financial statements and these notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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	Nine Months Ended September 30, 2018				
(in millions)	Racing	TwinSpires	Casino	Other Investments	Corporate
Net revenue	$261.3	$ 229.8	$301.3	$ 19.8	$ —
Taxes & purses	(55.7)	(12.2)	(101.8)	(0.7)	—
Marketing & advertising	(5.6)	(4.5)	(10.1)	(0.2)	—
Salaries & benefits	(34.5)	(6.6)	(41.7)	(10.2)	—
Content expense	(11.2)	(119.3)	—	—	—
SG&A expense	(12.8)	(8.6)	(17.2)	(2.6)	(7.6)
Other operating expense	(43.4)	(19.7)	(33.0)	(3.7)	(0.5)
Other income	0.4	—	36.4	0.1	0.1
Adjusted EBITDA	$98.5	$ 58.9	$133.9	$ 2.5	$ (8.0)

	Nine Months Ended September 30, 2017				
(in millions)	Racing	TwinSpires	Casino	Other Investments	Corporate (a)
Net revenue	$243.7	$ 199.2	$263.3	$ 17.7	$ —
Taxes & purses	(54.3)	(11.6)	(87.7)	—	—
Marketing & advertising	(3.9)	(6.7)	(9.1)	—	—
Salaries & benefits	(32.4)	(7.1)	(40.0)	(9.1)	—
Content expense	(11.7)	(96.5)	—	—	—
SG&A expense	(11.9)	(8.9)	(16.3)	(2.3)	(8.5)
Other operating expense	(39.4)	(17.1)	(31.0)	(3.6)	(0.4)
Other income	0.6	—	33.1	0.3	—
Adjusted EBITDA	$90.7	$ 51.3	$112.3	$ 3.0	$ (8.9)

(a) The Corporate segment includes corporate and other certain expenses of $2.1 million for the nine months ended September 30, 2017 that have not been allocated to Big Fish Games as a result of the Big Fish Transaction. The Big Fish Games segment is reported as held for sale and discontinued operations in the accompanying condensed consolidated financial statements and these notes.

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(in millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Reconciliation of Comprehensive Income to Adjusted EBITDA:				
Comprehensive income	$56.9	$17.3	$341.8	$102.5
Foreign currency translation, net of tax	(0.4)	(0.5)	(0.4)	(0.1)
Change in pension benefits, net of tax	(0.2)	(0.1)	—	(0.1)
Net income	56.3	16.7	341.4	102.3
Loss (income) from discontinued operations, net of tax	1.7	(3.6)	(166.1)	(14.3)
Income from continuing operations, net of tax	58.0	13.1	175.3	88.0
Additions:				
Depreciation and amortization	16.7	13.4	45.8	42.0
Interest expense	9.9	12.6	29.2	36.0
Income tax provision	16.7	10.3	52.1	57.9
EBITDA	101.3	49.4	302.4	223.9
Adjustments to EBITDA:				
Selling, general and administrative:				
Stock-based compensation expense	3.9	3.9	13.1	11.7
Other charges	0.2	—	0.2	—
Pre-opening expense	2.6	—	3.9	0.3
Other income, expense:				
Interest, depreciation and amortization expense related to equity investments	3.6	4.0	12.2	10.6
Gain on Ocean Downs/Saratoga transaction	(54.9)	—	(54.9)	—
Transaction expense, net	5.4	0.6	8.9	1.1
Calder exit costs	—	0.2	—	0.8
Total adjustments to EBITDA	(39.2)	8.7	(16.6)	24.5
Adjusted EBITDA	$62.1	$58.1	$285.8	$248.4
Adjusted EBITDA by segment:				
Racing	$(1.2)	$1.7	$98.5	$90.7
TwinSpires	19.3	18.8	58.9	51.3
Casino	45.7	39.5	133.9	112.3
Other Investments	1.1	1.1	2.5	3.0
Corporate[(a)]	(2.8)	(3.0)	(8.0)	(8.9)
Adjusted EBITDA	$62.1	$58.1	$285.8	$248.4

(a) The Corporate segment includes corporate and other certain expenses of $0.7 million for the three months and $2.1 million for the nine months ended September 30, 2017 that have not been allocated to Big Fish Games as a result of the Big Fish Transaction. The Big Fish Games segment is reported as held for sale and discontinued operations in the accompanying condensed consolidated financial statements and these notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The table below presents information about equity in income of unconsolidated investments included in our reported segments:

(in millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Casino	$9.0	$8.7	$24.3	$22.5
Other Investments	0.1	0.2	0.1	0.2
	$9.1	$8.9	$24.4	$22.7

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

(in millions)	September 30, 2018	December 31, 2017
Total assets:		
Racing	$ 495.4	$ 483.0
TwinSpires	225.8	215.9
Casino	803.2	679.6
Other Investments	84.9	15.2
Corporate	102.4	73.2
Big Fish Games	—	892.5
	$ 1,711.7	$ 2,359.4

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

(in millions)	Nine Months Ended September 30, 2018	2017
Capital expenditures:		
Racing	$53.6	$47.8
TwinSpires	7.1	7.3
Casino	9.2	26.0
Other Investments	53.8	1.3
Corporate	1.8	1.1
Big Fish Games	—	5.6
	$125.5	$89.1

16. SUBSEQUENT EVENT

Capital Management

At its regularly scheduled meeting held October 30, 2018, the Board of Directors of the Company approved the following:

- declaration of an annual cash dividend of $1.63 per share, to be paid on January 4, 2019 to all shareholders of record on December 7, 2018;
- a three-for-one stock split of the Company's common stock and a proportionate increase in the number of its authorized shares of common stock. The additional shares will be distributed on January 25, 2019 to shareholders of record on January 11, 2019. The Company's common stock will begin trading at the split-adjusted price on January 28, 2019; and

- a new common stock repurchase program of up to $300.0 million. The new program will replace 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.

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Acquisition of Certain Ownership Interests of Midwest Gaming Holdings, LLC

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

The Sale Transaction will be comprised of (i) the Company’s purchase of 100% of the ownership stake in Midwest Gaming held by affiliates and co-investors of Clairvest Group Inc. (“Clairvest”) for approximately $291.0 million and (ii) the Company’s offer to purchase, on the same terms, units of Midwest Gaming held by High Plaines Gaming, LLC, an affiliate of Rush Street Gaming, LLC (“Rush Street”), and Casino Investors, LLC (“Casino Investors”), resulting in aggregate cash consideration of at least $326.0 million.

Following the closing of the Sale Transaction, the parties expect to enter into a recapitalization transaction pursuant to which Midwest Gaming will use approximately $300.0 million in proceeds from new credit facilities to redeem, on a pro rata basis, additional Midwest Gaming units held by Rush Street and Casino Investors (the “Recapitalization” and together with the Sale Transaction, the “Transactions”). The Transactions will result in the Company owning at least 50.1% of Midwest Gaming.

Should sufficient members of Rush Street and Casino Investors elect to participate in the Company's offer to purchase additional units in the Sale Transaction, the Company's ownership of Midwest Gaming following the Transactions would increase, as would our cash investment. The Company's cash purchase price in the Sale Transaction is subject to a cap of $500.0 million, which is expected to pay for all of Clairvest's units and those of the other investors being sold in the Sale Transaction.

The Company and Rush Street equally will split priority distributions of two percent of Midwest Gaming's annual gross revenue. In addition, the Company, Rush Street, and Casino Investors will be entitled to receive pro rata quarterly tax distributions calculated based on the highest applicable U.S. individual federal tax rate plus the higher of California or New York individual state tax rates, as well as other distributions permitted under new credit facility covenants.

The Transactions are dependent on usual and customary closing conditions, including securing approval from the Illinois Gaming Board and clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Transactions are expected to close in the first half of 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, including the impact of natural and other disasters on our operations and our ability to obtain insurance recoveries in respect of such losses; 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; additional legalization of online real money gaming and sports wagering in the United States, and our ability to capitalize on and predict such legalization; the 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; security breaches and other security risks related to our technology, personal information, source code and other proprietary information, including failure to comply with regulations and other legal obligations relating to receiving, processing, storing and using personal information; payment-related risks, such as chargebacks for fraudulent credit card use; compliance with the Foreign Corrupt Practices Act or applicable money-laundering regulations; compliance with payment processing and payment transmission 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; the inability of our totalisator company, United Tote, to maintain its processes accurately, keep its technology current or maintain its significant customers; weather conditions affecting our ability to conduct live racing; increased competition in the horseracing business; changes in the regulatory environment of our racing operations; declining popularity in horseracing; seasonal fluctuations in our horseracing business due to geographic concentration of our operations; increased competition in our casino business; changes in regulatory environment of our casino business; the cost and possibility for delay, cost overruns and other uncertainties associated with the development and expansion of casinos; concentration and evolution of slot machine manufacturing and other technology conditions that could impose additional costs; impact of further legislation prohibiting tobacco smoking; geographic concentration of our casino business; changes in regulatory environment for our advanced deposit wagering, sports wagering, or online gaming businesses; increase in competition in the advanced deposit wagering, sports wagering, or online gaming businesses; inability to retain current customers or attract new customers to our advanced deposit wagering, sports wagering, or online gaming businesses; uncertainty and changes in the legal landscape relating to our advanced deposit wagering, sports wagering, or online gaming businesses; and failure to comply with laws requiring us to block access to certain individuals could result in penalties or impairment in our ability to offer advanced deposit wagering, sports wagering, or online gaming.

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, 2017, 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, gaming and online entertainment company anchored by our iconic flagship event - The Kentucky Derby. We are the largest legal online account wagering platform for horseracing in the U.S., through our ownership of TwinSpires.com. We are also a leader in brick-and-mortar casino gaming with approximately 8,000 gaming positions in six states. We have launched our BetAmerica Sportsbook at our two Mississippi casino properties and have announced our plans to enter additional U.S. sports betting markets and real money online gaming. We were organized as a Kentucky corporation in 1928, and our principal executive offices are located in Louisville, Kentucky.

On January 9, 2018, the Company completed the Big Fish Transaction. As described in further detail in Item 1. Financial Statements, the Company has presented Big Fish Games as held for sale and discontinued operations in the accompanying condensed consolidated financial statements and related notes.

On August 31, 2018, the Company completed the Ocean Downs/Saratoga Transaction. As described in further detail in Item 1. Financial Statements, the Company consolidated Ocean Downs as of the closing date, and no longer has an equity interest or management involvement in Saratoga New York or Saratoga Colorado. As part of the Ocean Downs/Saratoga Transaction, SHRI has agreed to grant the Company and its affiliates exclusive rights to operate online real-money sports betting and real-money 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.

In September 2018, we opened our new $65.0 million, 85,000 square-foot, state-of-the-art historical racing machine facility, Derby City Gaming, in Louisville, Kentucky, which is included in our Other Investments segment.

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.

The Company has not allocated corporate and other certain expenses to Big Fish Games consistent with the discontinued operations presentation in the accompanying condensed consolidated statements of comprehensive income. Accordingly, the prior year amounts were reclassified to conform to this presentation.

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

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

Adjusted EBITDA excludes:

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

- 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.

Our Operations

We manage our operations through five operating segments: Racing, TwinSpires, Casino, Other Investments and Corporate. Big Fish Games is a global producer and distributor of social casino, casual and mid-core free-to-play, and premium paid games for PC, Mac and mobile devices. On January 9, 2018, we closed the Big Fish Transaction, at which time Big Fish Games ceased to be an operating segment.

Racing Segment

Our Racing segment includes our four thoroughbred racetracks: Churchill Downs Racetrack ("Churchill Downs"), Arlington International Race Course ("Arlington"), Fair Grounds Race Course ("Fair Grounds") and Calder Race Course ("Calder"). We conduct live horseracing at Churchill Downs, Arlington and Fair Grounds. On July 1, 2014, we entered into a racing services agreement with The Stronach Group to allow Gulfstream Park to manage and operate Calder through December 31, 2020. We conducted 56 live thoroughbred race days in the third quarter of 2018, compared to 57 live thoroughbred race days during the third quarter of 2017. For the nine months ended September 30, 2018, we conducted 174 live thoroughbred race days, compared to 176 live thoroughbred race days during the nine months ended September 30, 2017.

TwinSpires Segment

Our TwinSpires segment includes TwinSpires.com, Fair Grounds Account Wagering ("FAW"), Velocity, and Bloodstock Research Information Services. On April 24, 2017, we completed the acquisition of certain assets of BAM Software and Services, LLC ("BetAmerica"), which is also included in our TwinSpires segment.

In May 2018, the Company announced its entry into sports betting and real money online gaming ("iGaming") markets. The Company also announced a strategic partnership agreement with SBTech to utilize their integrated technology platform for the Company's sports betting and iGaming operations.

In May 2018, the Company entered into an agreement with Golden Nugget to enter the New Jersey sports betting and iGaming markets.

Casino Segment

We are a provider of brick-and-mortar real-money casino gaming with approximately 8,000 gaming positions located in eight states. We own six casinos: Oxford Casino ("Oxford"), Riverwalk Casino ("Riverwalk"), Harlow's Casino ("Harlow’s"), Calder Casino, Ocean Downs, and Fair Grounds Slots, in addition to three hotels (Oxford, Riverwalk and Harlow’s). We also own Video Services, LLC ("VSI") associated with our Fair Grounds property. In addition, we have a 50% equity investment in Miami Valley Gaming ("MVG"). On August 31, 2018, the Company completed the Ocean Downs/Saratoga Transaction. As described in further detail in Item 1. Financial Statements, the Company consolidated Ocean Downs as of the closing date, and no longer has an equity interest or management involvement in Saratoga New York or Saratoga Colorado.

Our Casino revenue is primarily generated from slot machines, video poker, table games, and sports betting, while ancillary revenue includes hotel and food and beverage sales.

In August 2018, we launched our BetAmerica Sportsbook at our two Mississippi casino properties.

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

Other Investments Segment

Our Other Investments Segment includes United Tote, Derby City Gaming, and other minor investments.

In September 2018, we opened our new 85,000 square-foot, state-of-the-art historical racing machine facility, Derby City Gaming, in Louisville, Kentucky.

In September 2018, we announced a partnership with Keeneland Association, Inc. to propose the construction of a new racing facility in Oak Grove, Kentucky. The proposed facility will feature live horse racing, a hotel, and historical racing machines.

Corporate Segment

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

Government Regulations and Potential Legislative Changes

We are subject to various federal, state and international laws and regulations that affect our businesses. The ownership, operation and management of our racing operations, our casino operations, and TwinSpires 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, 2017, including Part I - Item 1, "Business," for a discussion of regulatory and legislative issues.

Racing Regulations

Illinois

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

TwinSpires Regulations

Federal

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

Mississippi

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

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

New Jersey

Online Gaming

In February 2013, legislation was signed into law that allows Atlantic City casinos to offer online casino style gaming in New Jersey. The legislation provides for a $400,000 license fee and a 15% tax rate on gross gaming revenues. We believe this legislation will have a positive impact on our business.

Sports Wagering

In June 2018, a bill was signed into law which authorizes sports wagering at casinos, racetracks and online, and the Division of Gaming Enforcement issued regulations governing the activity. Each casino or racetrack may offer a maximum of three online sports betting websites. The initial license fee is $100,000 with a tax of 9.75% on land-based gross betting revenue and a 14.25% tax on online gross betting revenue. We believe this legislation will have a positive impact on our business.

Pennsylvania

Online Gaming

In October 2017, legislation was signed into law that would allow for the operation of online gaming in Pennsylvania. The legislation allows for casinos to operate up to three categories of licenses: poker, interactive slots and interactive table games. Existing in-state casinos have 120 days to purchase a license. Each individual license is $4 million per license or $10 million for all three. If any licenses remain after 120 days, the state has the option to allow out of state gaming entities the opportunity to purchase an online gaming license. The tax rate on poker and table games is 14% of gross gaming revenue, while the tax on slot machine style games is 54%. In March 2018, the Pennsylvania Gaming Control Board issued temporary regulations governing the activity. We believe this legislation could have a positive impact on our business.

Sports Wagering

In October 2017, a bill was signed into law that will allow for the operation of brick and mortar and online sports wagering in Pennsylvania. Under the terms of the legislation, the state’s existing casinos can operate sports wagering and must pay a $10 million license fee. The tax rate on sports wagering is 36% of gross gaming revenue. In July 2018, the Pennsylvania Gaming Control Board issued temporary regulations governing the activity. To date, two operators have applied for and been approved for a license. We believe this legislation could have a positive impact on our business.

Specific State Casino Regulations and Potential Legislative Changes

Florida

In October 2018, the State of Florida Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering (“Division”) issued two separate Final Orders Granting Declaratory Statement in response to two separate Petitions for Declaratory Statements submitted by Calder Race Course, Inc. regarding jai alai.

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

Maryland

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

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

Other Regulations and Potential Legislative Changes

Kentucky

In April 2018, House Bill 487 ("HB 487"), was approved by the Kentucky Senate and enacted into law. HB 487 reduces Kentucky’s corporate statutory income tax rate from 6% to 5% and imposes a single-sales factor apportionment effective for the 2018 tax year and beyond. Effective January 1, 2019, HB 487 will require the Company to file either a water’s edge combined or consolidated Kentucky tax return. We believe HB 487 will have a beneficial impact on the Company’s tax rate for 2018 and future years.

Consolidated Financial Results

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2018	2017	Change	2018	2017	Change
Net revenue	$221.3	$196.9	$24.4	$790.0	$703.7	$86.3
Operating income	20.5	27.0	(6.5)	176.8	158.4	18.4
Operating income margin	9%	14%		22%	23%	
Net income	$56.3	$16.7	$39.6	$341.4	$102.3	$239.1
Adjusted EBITDA	62.1	58.1	4.0	285.8	248.4	37.4

Three Months Ended September 30, 2018, Compared to Three Months Ended September 30, 2017

- Our net revenue increased $24.4 million driven by a $17.5 million increase from Casino primarily from successful marketing and promotional activities, a $5.9 million increase from TwinSpires due to the increase in handle and the adoption of ASC 606 which resulted in modifications between the classification of net revenue and operating expenses, and a $2.2 million increase in Other Investments due to the opening of our Derby City Gaming facility in September 2018. Partially offsetting these increases was a $1.2 million decrease from Racing primarily from Arlington due to inclement weather.
- Our operating income decreased $6.5 million driven by a $4.8 million increase in transaction expense, net primarily due to the $5.0 million termination fee in connection with the Lady Luck Nemacolin Transaction, a $4.3 million decrease from Racing primarily from Arlington due to inclement weather and increased maintenance and other expenses at Churchill Downs, a $1.8 million increase in selling, general and administrative expense primarily driven by salaries and related benefits, a $1.3 million decrease in Other Investments primarily due to pre-opening expenses for Derby City Gaming, and a $0.3 decrease million from other sources. Partially offsetting these decreases was a $6.0 million increase from our Casino segment primarily driven by the increase in net revenue.
-

Our net income increased $39.6 million driven by a $42.3 million net of tax gain ($54.9 million pre-tax) on the Ocean Downs/Saratoga Transaction, a $6.2 million decrease in our income tax provision excluding the book tax on the Ocean Downs/Saratoga Transaction primarily from the reduction in the federal statutory corporate tax rate from 35% to 21% as a result of the Tax Cuts and Jobs Act, a $2.7 million decrease in interest expense, net associated with lower outstanding debt balances, and a $0.2 million increase from other sources. Partially offsetting these increases were a $6.5 million decrease in operating income and a $5.3 million decrease in Big Fish Games' net income.

- Our adjusted EBITDA increased $4.0 million driven by a $6.2 million increase from Casino primarily due to organic growth from successful marketing and promotional activities at certain properties and our unconsolidated investments, a $0.5 million increase from TwinSpires primarily due to an increase in handle, and a $0.2 million increase from other sources. Partially offsetting these increases was a $2.9 million decrease from Racing primarily due to an increase in maintenance and other expenses at Churchill Downs.

Nine Months Ended September 30, 2018, Compared to Nine Months Ended September 30, 2017

- Our net revenue increased $86.3 million driven by a $38.0 million increase from Casino primarily from successful marketing and promotional activities, a $30.3 million increase from TwinSpires due to the increase in handle, a $15.8 million increase from Racing primarily from a successful Kentucky Derby and Oaks week driven by increased ticket sales and handle, and a $2.2 million increase in Other Investments primarily due to the opening of Derby City Gaming in September 2018.
- Our operating income increased $18.4 million driven by a $19.2 million increase from Casino primarily driven by the increase in net revenue from successful marketing and promotional activities, an $8.3 million increase from TwinSpires due to the increase in handle, a $4.4 million increase in Racing primarily from a successful Kentucky Derby and Oaks week driven by increased ticket sales and handle, a $0.8 million decrease in Calder exit costs, and a $0.1 million increase from other sources. Partially offsetting these increases were a $7.8 million increase in in transaction expenses, net due to the termination fee relating to the Termination Agreement and Lady Luck Nemacolin Transaction and other acquisition-related expenses, a $4.5 million increase in selling, general and administrative expense primarily driven by an increase in salaries and associated benefits and stock-based compensation, and a $2.1 million decrease in Other Investments primarily due to pre-opening expenses for the Derby City Gaming facility.
- Our net income increased $239.1 million driven by a $18.4 million increase in operating income, a $168.3 million after tax gain on the Big Fish Transaction, a $42.3 million net of tax gain ($54.9 million pre-tax) on the on the Ocean Downs/Saratoga Transaction, a $18.4 million decrease in our income tax provision excluding the book tax on the Ocean Downs/Saratoga Transaction primarily from the reduction in the federal statutory corporate tax rate from 35% to 21% as a result of the Tax Cuts and Jobs Act, a $6.8 million decrease in interest expense, net associated with lower outstanding debt balances, and a $1.7 million increase from equity in income of unconsolidated investments primarily due to strong performances at Ocean Downs and MVG. Offsetting these increases were a $16.5 million decrease in Big Fish net income and a $0.3 million decrease from other sources.
- Our adjusted EBITDA increased $37.4 million driven by a $21.6 million increase from Casino primarily due to organic growth from successful marketing and promotional activities at certain properties and our unconsolidated investments, a $7.8 million increase from Racing primarily due to a successful Kentucky Derby and Oaks week driven by increased ticket sales and handle, a $7.6 million increase at TwinSpires driven by the increase in handle, and a $0.4 million increase from other sources.

Financial Results by Segment

Net Revenue by Segment

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2018	2017	Change	2018	2017	Change
Racing:						
Churchill Downs	$9.5	$9.0	$0.5	$176.1	$156.7	$19.4
Arlington	26.0	27.2	(1.2)	55.3	56.6	(1.3)
Fair Grounds	4.8	5.0	(0.2)	27.9	28.5	(0.6)
Calder	0.7	0.7	—	2.0	1.9	0.1
Total Racing	41.0	41.9	(0.9)	261.3	243.7	17.6
TwinSpires	72.1	66.1	6.0	229.8	199.2	30.6
Casino:						
Oxford Casino	28.9	25.2	3.7	79.3	69.2	10.1
Calder Casino	23.4	19.4	4.0	73.0	62.6	10.4
Riverwalk Casino	12.8	12.2	0.6	40.8	35.7	5.1
Harlow's Casino	12.1	12.3	(0.2)	37.9	38.3	(0.4)
VSI	10.6	9.3	1.3	32.7	28.8	3.9
Fair Grounds Slots	9.1	8.7	0.4	28.9	27.7	1.2
Ocean Downs	8.1	—	8.1	8.1	—	8.1
Saratoga	—	0.4	(0.4)	0.6	1.0	(0.4)
Total Casino	105.0	87.5	17.5	301.3	263.3	38.0
Other Investments	7.8	5.7	2.1	19.8	17.7	2.1
Eliminations	(4.6)	(4.3)	(0.3)	(22.2)	(20.2)	(2.0)
Net Revenue	$221.3	$196.9	$24.4	$790.0	$703.7	$86.3

Three Months Ended September 30, 2018, Compared to Three Months Ended September 30, 2017

- Racing revenue decreased $0.9 million driven by a $1.2 million decrease at Arlington primarily due to lower attendance during the meet from inclement weather and a $0.2 million decrease at Fair Grounds Race Course, partially offset by a $0.5 million increase at Churchill Downs due to a $0.9 million increase primarily from increased handle, partially offset by a $0.4 million decrease from timing of the impact of revenue recognition under ASC 606 in the three months ended September 30, 2018 compared to 2017.
- TwinSpires revenue increased $6.0 million primarily due to a 1.0% handle growth, which was consistent with the industry, and the adoption of ASC 606 which resulted in modifications between the classification of net revenue and marketing and content operating expenses.
- Casino revenue increased $17.5 million driven by a $8.1 million increase due to consolidating Ocean Downs as a result of the Ocean Downs/Saratoga Transaction effective August 31, 2018, a $4.0 million increase at Calder Casino due to capital improvements and the continued impact of the temporary closure of a competitor due to Hurricane Irma which re-opened during the second quarter of 2018, a $3.7 million increase at Oxford primarily due to the hotel opening in December 2017 and expanded gaming floor, and a $1.7 million increase at our Louisiana properties which resulted from successful marketing and promotional activities.
- Other Investments increased $2.1 million due to the opening of the Derby City Gaming facility in September 2018.

Nine Months Ended September 30, 2018, Compared to Nine Months Ended September 30, 2017

- Racing revenue increased $17.6 million driven by a $19.4 million increase at Churchill Downs primarily from a successful Kentucky Derby and Oaks week driven by increased ticket sales and handle, partially offset by a $1.3 million decrease at Arlington primarily due to lower attendance during the meet from inclement weather and $0.5 million decrease from other sources.
- TwinSpires revenue increased $30.6 million primarily due to handle growth of 10.4%, which outpaced the U.S. thoroughbred industry performance by 6.5 percentage points.
-

Casino revenue increased $38.0 million driven by a $10.4 million increase at Calder Casino due to capital improvements and the temporary closure of a competitor due to Hurricane Irma which re-opened during the second quarter of 2018, a $10.1 million increase at Oxford due to the hotel opening in December 2017 and expanded gaming floor, an $8.1 million increase due to consolidating Ocean Downs as a result of the Ocean Downs/Saratoga Transaction effective August 31, 2018, a $5.1 million increase at Riverwalk, and a $5.1 million increase at our Louisiana properties, both of which resulted from successful promotional activities. Partially offsetting these increases was a $0.8 million decrease from other sources.

- Other Investments increased $2.1 million due to the opening of the Derby City Gaming facility in September 2018.

Additional Statistical Data by Segment

The following tables provide additional statistical data for our segments:

Racing and TwinSpires

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Racing:				
Churchill Downs				
Race Days	11	10	49	48
Total handle	$56.1	$46.6	$533.9	$499.3
Net pari-mutuel revenue	$5.8	$5.1	$56.3	$52.3
Commission %	10.3 %	10.9 %	10.5 %	10.5 %
Arlington				
Race Days	45	47	71	71
Total handle	$170.4	$171.5	$347.4	$348.9
Net pari-mutuel revenue	$18.8	$19.9	$43.7	$44.7
Commission %	11.0 %	11.6 %	12.6 %	12.8 %
Fair Grounds				
Race Days	—	—	54	57
Total handle	$21.2	$21.8	$187.4	$192.7
Net pari-mutuel revenue	$4.1	$4.3	$19.9	$20.6
Commission %	19.3 %	19.7 %	10.6 %	10.7 %
Total Racing				
Race Days	56	57	174	176
Total handle	$247.7	$239.9	$1,068.7	$1,040.9
Net pari-mutuel revenue	$28.7	$29.3	$119.9	$117.6
Commission %	11.6 %	12.2 %	11.2 %	11.3 %
TwinSpires (1)				
Total handle	$341.8	$338.5	$1,097.9	$994.4
Net pari-mutuel revenue	$61.4	$61.2	$199.9	$182.3
Commission %	18.0 %	18.1 %	18.2 %	18.3 %
Eliminations (2)				
Total handle	$(22.7)	$(18.8)	$(141.1)	$(122.3)
Net pari-mutuel revenue	$(3.3)	$(3.2)	$(17.3)	$(14.1)
Total				
Handle	$566.8	$559.6	$2,025.5	$1,913.0
Net pari-mutuel revenue	$86.8	$87.3	$302.5	$285.8
Commission %	15.3 %	15.6 %	14.9 %	14.9 %

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

(2) Eliminations include the elimination of intersegment transactions.

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Casino Activity

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Oxford Casino				
Slot handle	$274.2	$231.8	$754.2	$627.2
Net slot revenue	22.1	19.3	60.4	52.7
Net gaming revenue	26.8	23.9	74.1	65.8
Riverwalk Casino				
Slot handle	$156.4	$162.2	$509.4	$451.6
Net slot revenue	10.5	10.4	34.3	30.4
Net gaming revenue	12.2	11.6	38.9	34.0
Harlow’s Casino				
Slot handle	$142.3	$134.6	$440.5	$423.0
Net slot revenue	10.6	10.6	33.4	33.1
Net gaming revenue	11.5	11.7	36.0	36.3
Calder Casino				
Slot handle	$338.0	$279.5	$1,035.5	$868.4
Net slot revenue	22.3	18.5	70.0	60.1
Net gaming revenue	22.3	18.5	69.9	60.0
Fair Grounds Slots and Video Poker				
Slot handle	$102.2	$97.1	$324.7	$312.0
Net slot revenue	8.8	8.5	28.0	26.9
Net gaming revenue	19.4	17.8	60.6	55.6
Ocean Downs Casino[1]				
Slot handle	$76.3	$—	$76.3	$—
Net slot revenue	6.7	—	6.7	—
Net gaming revenue	7.6	—	7.6	—
Total net gaming revenue	$99.8	$83.5	$287.1	$251.7

(1) On August 31, 2018, we completed the Ocean Downs/Saratoga Transaction, the results of which are presented in 2018 from the date of consolidation through September 30, 2018.

Consolidated Operating Expense

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2018	2017	Change	2018	2017	Change
Taxes & purses	$51.9	$44.6	$7.3	$170.4	$153.6	$16.8
Content expense	36.5	30.6	5.9	110.2	90.0	20.2
Salaries & benefits	31.6	29.0	2.6	93.9	88.6	5.3
Selling, general and administrative expense	21.7	19.9	1.8	63.2	58.7	4.5
Depreciation and amortization	16.7	13.4	3.3	45.8	42.0	3.8
Marketing & advertising	6.0	5.1	0.9	20.9	19.3	1.6
Transaction expense, net	5.4	0.6	4.8	8.9	1.1	7.8
Calder exit costs	—	0.2	(0.2)	—	0.8	(0.8)
Other operating expense	31.0	26.5	4.5	99.9	91.2	8.7
Total expense	$200.8	$169.9	$30.9	$613.2	$545.3	$67.9
Percent of net revenue	91 %	86 %		78 %	77 %	

Three Months Ended September 30, 2018, Compared to Three Months Ended September 30, 2017

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses increased $7.3 million driven by a $6.3 million increase generated by our Casino segment associated with an increase in slot handle and a $1.0 million increase in purses and taxes primarily related to our new Derby City Gaming facility which opened in September 2018.
- Content expense increased $5.9 million driven by the increase in TwinSpires' handle, the adoption of ASC 606 which resulted in modifications between the classification of net revenue and content expense, and an increase in host fees for certain jurisdictions.
- Salaries and benefits expense increased $2.6 million driven by additional personnel costs and related benefits.
- Selling, general and administrative expense increased $1.8 million primarily from an increase in salaries and related benefits.
- Depreciation and amortization expense increased $3.3 million driven by additional capital expenditures placed in service for Churchill Downs, Oxford, TwinSpires, and Derby City Gaming.
- Marketing & advertising expense increased $0.9 million primarily from the opening of Derby City Gaming in September 2018, partially offset by the adoption of ASC 606 which resulted in modifications between the classification of net revenue and marketing expense for TwinSpires.
- Transaction expense, net increased $4.8 million primarily due to the payment of the termination fee of $5.0 million pursuant to the Termination Agreement in connection with the Lady Luck Nemacolin Transaction.
- Other operating expenses include maintenance, utilities, food and beverage costs, property taxes and insurance and other operating expenses. Other operating expense increased $4.5 million driven by a $1.2 million increase from the Derby City Gaming opening in September 2018 and the consolidation of Ocean Downs effective August 31, 2018, a $1.2 million increase in maintenance and other expenses primarily at Churchill Downs, and a $2.1 million increase from other sources.

Nine Months Ended September 30, 2018, Compared to Nine Months Ended September 30, 2017

Significant items affecting comparability of consolidated operating expense include:

- Taxes and purses increased $16.8 million due to a $12.2 million increase generated by our Casino segment associated with an increase in slot handle, a $4.1 million increase in purses primarily driven by an increase at Churchill Downs, and a $0.5 million increase from other sources.
- Content expense increased $20.2 million due primarily to the increase in TwinSpires' handle and the adoption of ASC 606 which resulted in modifications between the classification of net revenue and content expense for TwinSpires.
- Salaries and benefits expense increased $5.3 million driven by additional personnel costs and related benefits.
- Selling, general and administrative expense increased $4.5 million driven primarily by an increase in salaries and related benefits and stock-based compensation expense.
- Depreciation and amortization expense increased $3.8 million primarily driven by additional capital expenditures placed in service for Churchill Downs.
- Marketing & advertising expense increased $1.6 million primarily from the opening of Derby City Gaming in September 2018 and promotional expenses at certain Casino properties.
- Transaction expense, net increased $7.8 million primarily due to the payment of the termination fee of $5.0 million pursuant to the Termination Agreement in connection with the Lady Luck Nemacolin Transaction and other acquisition-related expenses.
- Other operating expense increased $8.7 million driven by a $2.8 million increase in contract services expense, a $2.5 million increase in maintenance expense at Churchill Downs, a $1.2 million increase from the Derby City Gaming opening in September 2018 and the consolidation of Ocean Downs effective August 31, 2018, and a $2.2 million increase from other sources.

Corporate Allocated Expense

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2018	2017	Change	2018	2017	Change
Racing	$(1.6)	$(1.5)	$(0.1)	$(4.7)	$(4.3)	$(0.4)
TwinSpires	(1.5)	(1.4)	(0.1)	(4.2)	(3.9)	(0.3)
Casino	(2.2)	(1.8)	(0.4)	(6.3)	(5.3)	(1.0)
Other Investments	(0.4)	(0.3)	(0.1)	(1.1)	(1.0)	(0.1)
Corporate allocated expense	5.7	5.0	0.7	16.3	14.5	1.8
Total Corporate allocated expense	$—	$—	$—	$—	$—	$—

Adjusted EBITDA

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

The Company has not allocated corporate and other certain expenses to Big Fish Games consistent with the discontinued operations presentation in the accompanying consolidated statements of comprehensive income. Accordingly, the prior year amounts were reclassified to conform to this presentation.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2018	2017	Change	2018	2017	Change
Racing	$(1.2)	$1.7	$(2.9)	$98.5	$90.7	$7.8
TwinSpires	19.3	18.8	0.5	58.9	51.3	7.6
Casino	45.7	39.5	6.2	133.9	112.3	21.6
Other Investments	1.1	1.1	—	2.5	3.0	(0.5)
Corporate[(a)]	(2.8)	(3.0)	0.2	(8.0)	(8.9)	0.9
Adjusted EBITDA	$62.1	$58.1	$4.0	$285.8	$248.4	$37.4

(a) The Corporate segment includes corporate and other certain expenses of $0.7 million for the three months and $2.1 million for the nine months ended September 30, 2017 that have not been allocated to Big Fish Games as a result of the Big Fish Transaction. The Big Fish Games segment is reported as held for sale and discontinued operations in the accompanying condensed consolidated financial statements and related notes.

Three Months Ended September 30, 2018, Compared to Three Months Ended September 30, 2017

- Racing adjusted EBITDA decreased $2.9 million due to a $1.6 million decrease at Churchill Downs primarily from maintenance and other expenses, a $0.8 million decrease at Fair Grounds primarily from higher insurance costs and taxes, and a $0.5 million decrease at Arlington primarily due to decreased net revenue from lower attendance from inclement weather.
- TwinSpires adjusted EBITDA increased $0.5 million driven by the 1.0% handle growth, which was consistent with the industry, partially offset by an increase in content expense.
- Casino adjusted EBITDA increased $6.2 million driven by a $6.7 million increase from our wholly-owned Casino properties, partially offset by a $0.5 million decrease in our equity investments due to the Ocean Downs/Saratoga Transaction.

Nine Months Ended September 30, 2018, Compared to Nine Months Ended September 30, 2017

- Racing adjusted EBITDA increased $7.8 million due to an $8.8 million increase at Churchill Downs primarily from a successful Kentucky Derby and Oaks week driven by increased ticket sales and handle, partially offset by a $0.9 million decrease at Arlington primarily due to decreased net revenue from lower attendance during the meet from inclement weather and a $0.1 million decrease from other sources.
- TwinSpires adjusted EBITDA increased $7.6 million driven by the 10.4% growth in handle, which outpaced the U.S. thoroughbred industry performance by 6.5 percentage points.
- Casino adjusted EBITDA increased $21.6 million driven by a $21.8 million increase from our wholly-owned Casino properties, partially offset by a $0.2 million decrease in our equity investments due to the Ocean Downs/Saratoga Transaction.

Reconciliation of Comprehensive Income to Adjusted EBITDA

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2018	2017	Change	2018	2017	Change
Comprehensive income	$56.9	$17.3	$39.6	$341.8	$102.5	$239.3
Foreign currency translation, net of tax	(0.4)	(0.5)	0.1	(0.4)	(0.1)	(0.3)
Change in pension benefits, net of tax	(0.2)	(0.1)	(0.1)	—	(0.1)	0.1
Net income	56.3	16.7	39.6	341.4	102.3	239.1
Loss (income) from discontinued operations, net of tax	1.7	(3.6)	5.3	(166.1)	(14.3)	(151.8)
Income from continuing operations, net of tax	58.0	13.1	44.9	175.3	88.0	87.3
Additions:						
Depreciation and amortization	16.7	13.4	3.3	45.8	42.0	3.8
Interest expense	9.9	12.6	(2.7)	29.2	36.0	(6.8)
Income tax provision	16.7	10.3	6.4	52.1	57.9	(5.8)
EBITDA	$101.3	$49.4	$51.9	$302.4	$223.9	$78.5
Adjustments to EBITDA:						
Selling, general and administrative:						
Stock-based compensation expense	$3.9	$3.9	$—	$13.1	$11.7	$1.4
Other charges	0.2	—	0.2	0.2	—	0.2
Pre-opening expense	2.6	—	2.6	3.9	0.3	3.6
Other income (expense):						
Interest, depreciation and amortization expense related to equity investments	3.6	4.0	(0.4)	12.2	10.6	1.6
Gain on Ocean Downs/Saratoga transaction	(54.9)	—	(54.9)	(54.9)	—	(54.9)
Transaction expense, net	5.4	0.6	4.8	8.9	1.1	7.8
Calder exit costs	—	0.2	(0.2)	—	0.8	(0.8)
Total adjustments to EBITDA	(39.2)	8.7	(47.9)	(16.6)	24.5	(41.1)
Adjusted EBITDA	$62.1	$58.1	$4.0	$285.8	$248.4	$37.4

Consolidated Balance Sheet

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

(in millions)	September 30, 2018	December 31, 2017	Change
Total assets	$ 1,711.7	$ 2,359.4	$(647.7)
Total liabilities	$ 1,197.0	$ 1,719.1	$(522.1)
Total shareholders' equity	$ 514.7	$ 640.3	$(125.6)

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

- Total assets decreased $647.7 million driven by an $823.4 million decrease in long-term assets of discontinued operations held for sale and a $69.1 million decrease in current assets of discontinued operations held for sale due to the Big Fish Transaction, a $63.4 million decrease in investment in and advances to unconsolidated affiliates due to the Ocean Downs/Saratoga Transaction, a $35.6 million decrease in income tax receivable due to our current year income tax provision, and a $15.8 million decrease in accounts receivable, net primarily due to cash receipts associated with the 2018 Kentucky Derby and Oaks. Partially offsetting these decreases were a $145.4 million increase in property and equipment, net due to the Ocean Downs/Saratoga Transaction and our capital project and maintenance expenditures partially offset by depreciation expense, a $95.4 million increase in other intangible assets primarily due to the Ocean Downs/Saratoga Transaction partially offset by amortization expense, a $79.6 million increase in cash and cash equivalents primarily due

to the net proceeds received from the Big Fish Transaction partially offset by repurchases of common stock, a $20.2 million increase in goodwill due to the Ocean Downs/Saratoga Transaction, and a $19.0 million increase in all other assets.

- Total liabilities decreased $522.1 million driven by a $244.7 million decrease in long-term debt, net of maturities and loan origination fees primarily due to the paydown on the Revolver (as defined below) from the Big Fish Transaction proceeds in January 2018, a $188.2 million decrease in current liabilities of discontinued operations held for sale and a $54.8 million decrease in non-current liabilities of discontinued operations held for sale due to the Big Fish Transaction, a $58.1 million decrease in current deferred revenue primarily due to recognition of advanced sales for the 2018 Kentucky Derby and Oaks, and a $23.7 million decrease in dividends payable due to the payment of our annual dividends. Partially offsetting these decreases were a $25.8 million increase in deferred income taxes primarily due to the Ocean Downs/Saratoga Transaction, and a $21.6 million increase in all other liabilities.
- Total shareholders' equity decreased $125.6 million driven by $514.7 million in repurchases of common stock, primarily as a result of the $500.0 million share repurchase program in a "modified Dutch auction" tender offer that was completed on February 12, 2018. Partially offsetting this decrease were $341.4 million in current year net income, a $29.7 million increase as a result of the adoption of ASC 606, $16.5 million in stock-based compensation, and a $1.5 million increase in other equity components.

Liquidity and Capital Resources

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

(in millions)	Nine Months Ended September 30,		
Cash flows from:	2018	2017	Change
Operating activities	$135.4	$167.2	$(31.8)
Investing activities	$848.9	$(124.6)	$973.5
Financing activities	$(899.1)	$(31.7)	$(867.4)

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

Nine Months Ended September 30, 2018, Compared to the Nine Months Ended September 30, 2017

- Cash provided by operating activities decreased $31.8 million driven by a $16.2 million decrease in current deferred revenue primarily as a result of the timing of payments related to the Kentucky Derby and Oaks events and a $15.6 million decrease from all other operating activities.
- Cash provided by investing activities increased $973.5 million driven by $970.7 million increase in proceeds related to the Big Fish Transaction, a $24.0 million increase related to the January 2017 investment in Ocean Downs, and a $23.1 million increase related to the BetAmerica acquisition in April 2017. Partially offsetting these increases were a $43.2 million increase in capital project expenditures and a $1.1 million decrease in all other investing activities.
- Cash used in financing activities increased $867.4 million primarily driven by a $446.4 million increase in net borrowings and repayments related to our credit agreements, a $333.6 million increase related to share repurchases primarily due to our "modified Dutch auction" tender offer completed on February 12, 2018, a $54.7 million increase due to the repayment of debt associated with the Ocean Downs/Saratoga Transaction, a $26.4 million increase as a result of the 2016 Big Fish Games deferred payment and a $6.3 million increase from other financing activities.

Credit Facilities and Indebtedness

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

(in millions)	September 30, 2018	December 31, 2017	Change
2017 Credit Agreement:			
Term Loan B due 2024	$ 397.0	$ 400.0	$ (3.0)
Revolving credit facility	—	239.0	(239.0)
Swing line of credit	—	3.0	(3.0)
Total 2017 Credit Agreement	397.0	642.0	(245.0)
2028 Senior Notes	500.0	500.0	—
Total debt	897.0	1,142.0	(245.0)
Current maturities of long-term debt	4.0	4.0	—
Total debt, net of current maturities	893.0	1,138.0	(245.0)
Issuance cost and fees	(11.9)	(12.8)	0.9
Total debt, net of current maturities	$ 881.1	$ 1,125.2	$ (244.1)

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, 2018. At September 30, 2018, the financial ratios under our 2017 Credit Agreement were as follows:

	Actual	Requirement
Interest coverage ratio	7.0 to 1.0	> 2.5 to 1.0
Consolidated total secured net leverage ratio	0.7 to 1.0	< 4.0 to 1.0

The Term Loan B requires quarterly payments of 0.25% of the original $400.0 million balance, or $1.0 million per quarter. The Term Loan B may be subject to additional mandatory prepayment from excess cash flow on an annual basis per the provisions of the 2017 Credit Agreement. The Company is required to pay a commitment fee on the unused portion of the Revolver determined by a pricing grid based on the consolidated total net leverage ratio of the Company. For the period ended September 30, 2018, the Company's commitment fee rate was 0.25%.

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.

2028 Senior Notes

On December 27, 2017, we completed an offering of $500.0 million in aggregate principal amount of 4.75% Senior Unsecured Notes that mature on January 15, 2028 (the "2028 Senior Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A that is exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in accordance with Regulation S under the Securities Act. The 2028 Senior Notes were issued at par, with interest payable on January 15th and July 15th of each year, commencing on July 15, 2018. The Company used the net proceeds from the offering to repay a portion of our $600.0 million 5.375% Senior Unsecured Notes. 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, 2018, are estimated as follows:

(in millions)	October 1 to December 31, 2018	2019-2020	2021-2022	Thereafter	Total
Term Loan B	$ 1.0	$ 8.0	$ 8.0	$ 380.0	$ 397.0
Interest on Term Loan B(1)	4.3	33.9	33.1	32.3	103.6
Senior Unsecured Notes	—	—	—	500.0	500.0
Interest on 2028 Senior Notes	13.1	47.5	47.5	130.6	238.7
Operating leases	1.3	8.1	5.3	3.2	17.9
Total	$ 19.7	$ 97.5	$ 93.9	$ 1,046.1	$ 1,257.2

(1) Interest includes the estimated contractual payments under our 2017 Credit Agreement assuming no change in the weighted average borrowing rate of 4.25% which was the rate in place as of September 30, 2018.

As of September 30, 2018, we had approximately $2.7 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;
- interest rate and credit risk; and
- foreign currency exchange risk.

General economic trends

Our business is sensitive to consumer confidence and reductions in consumers' discretionary spending, which may result from challenging economic conditions, unemployment levels and other changes in the economy. Demand for entertainment and leisure activities is sensitive to consumers' disposable incomes, which can be adversely affected by economic conditions and unemployment levels. This could result in fewer patrons visiting our racetracks, gaming and wagering facilities, 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, 2018, we had $397.0 million outstanding under our 2017 Credit Agreement, which bears interest at LIBOR based variable rates. We are exposed to market risk on variable rate debt due to potential adverse changes in these rates. Assuming the outstanding balance of the debt facility remains constant, a one-percentage point increase in the LIBOR rate would reduce net income and cash flows from operating activities by $3.1 million.

Foreign currency exchange risk

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

ITEM 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, 2018. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
The following descriptions have been updated or added since the filing of our Annual Report on Form 10-K for the year ended December 31, 2017, 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.
Kater Class Action Suit
On April 17, 2015, a purported class action styled Cheryl Kater v. Churchill Downs Incorporated (the "Kater litigation") was filed in the United States District Court for the Western District of Washington (the "District Court") alleging, among other claims, that the Company’s "Big Fish Casino" operated by the Company’s then-wholly owned mobile gaming subsidiary Big Fish Games violated Washington law, including the Washington Consumer Protection Act, by facilitating unlawful gambling through its virtual casino games (namely the slots, blackjack, poker, and roulette games offered through Big Fish Casino), and seeking among other things, return of monies lost, reasonable attorney’s fees and injunctive relief. On November 19, 2015, the District Court dismissed the case with prejudice and, on December 7, 2015, Plaintiff’s motion for reconsideration was denied. Plaintiff filed a notice of appeal on January 5, 2016 to the United States Court of Appeals for the Ninth Circuit.
As previously disclosed, on January 9, 2018, the Company sold Big Fish Games to Aristocrat Technologies, Inc., a Nevada corporation (the "Purchaser"), an indirect, wholly owned subsidiary of Aristocrat Leisure Limited, an Australian corporation pursuant to the Stock Purchase Agreement, dated as of November 29, 2017, by and among the Company, Big Fish Games and the Purchaser. Pursuant to the terms of the Stock Purchase Agreement, the Company agreed to indemnify the Purchaser for the losses and expenses associated with the Kater litigation for Big Fish Games, which is referred to in the Stock Purchase Agreement as the "Primary Specified Litigation."
On February 6, 2018, oral arguments on Plaintiff’s appeal of the dismissal of the Kater litigation took place before the United States Court of Appeals for the Ninth Circuit. On March 28, 2018, the United States Court of Appeals for the Ninth Circuit reversed and remanded the District Court’s dismissal of the complaint against the Company. On June 12, 2018, the United States Court of Appeals for the Ninth Circuit denied the Company’s Petition for Rehearing En Banc filed by the Company on May 11, 2018. On July 13, 2018, the parties filed a Joint Status Report and Discovery Plan in the District Court. On July 20, 2018, the Company filed a Motion to Compel Arbitration in the District Court.
In accordance with the terms of the Stock Purchase Agreement, the Company is working closely with the Purchaser to vigorously defend this matter in both the District Court and in any further appellate proceedings, and the Company believes that there are meritorious legal and factual defenses against Plaintiff’s allegations and requests for relief.
Louisiana Horsemens' Purses Class Action Suit
On April 21, 2014, John L. Soileau and other individuals filed a Petition for Declaratory Judgment, Permanent Injunction, and Damages-Class Action styled John L. Soileau, et. al. versus Churchill Downs Louisiana Horseracing, LLC, Churchill Downs Louisiana Video Poker Company, LLC (Suit No. 14-3873) in the Parish of Orleans Civil District Court, State of Louisiana (the "District Court"). The petition defined the "alleged plaintiff class" as quarter-horse owners, trainers and jockeys that have won purses at the "Fair Grounds Race Course & Slots" facility in New Orleans, Louisiana since the first effective date of La. R.S. 27:438 and specifically since 2008. The petition alleged that Churchill Downs Louisiana Horseracing, L.L.C. and Churchill Downs Louisiana Video Poker Company, L.L.C. ("Fair Ground Defendants") have collected certain monies through video draw poker devices that constitute monies earned for purse supplements and all of those supplemental purse monies have been paid to thoroughbred horsemen during Fair Grounds’ live thoroughbred horse meets. La. R.S. 27:438 requires a portion of those supplemental purse monies to be paid to quarter-horse horsemen during Fair Grounds’ live quarter-horse meets. The petition requested that the District Court declare that Fair Grounds Defendants violated La. R.S. 27:438, issue a permanent and mandatory injunction ordering Fair Grounds Defendants to pay all future supplements due to the plaintiff class pursuant to La. R.S. 27:438, and to pay the plaintiff class such sums as it finds to reasonably represent the value of the sums due to the plaintiff class. On August 14, 2014, the plaintiffs filed an amendment to their petition naming the Horsemen’s Benevolent and Protective Association 1993, Inc. ("HBPA") as an additional defendant and alleging that HBPA is also liable to plaintiffs for the disputed purse funds. On October 9, 2014, HBPA and Fair Grounds Defendants filed exceptions to the suit, including an exception of primary jurisdiction seeking referral to the Louisiana Racing Commission. By Judgment dated November 21, 2014, the District Court granted the exception of

primary jurisdiction and referred the matter to the Louisiana Racing Commission. On January 26, 2015, the Louisiana Fourth Circuit Court of Appeals denied the plaintiffs' request for supervisory review of the Judgment. On August 24, 2015, the Louisiana Racing Commission ruled that the plaintiffs did not have standing or a right of action to pursue the case. On September 18, 2015, the plaintiffs filed a Petition for Appeal of Administrative Order Dismissing Case for No Right of Action in the District Court seeking a reversal of the Louisiana Racing Commission's ruling. On July 13, 2016, the plaintiffs filed their brief with the District Court and Fair Grounds Defendants filed its brief on August 12, 2016. A hearing was held at the District Court on September 15, 2016 and the District Court affirmed the Louisiana Racing Commission's ruling. The plaintiffs filed an appeal with the Louisiana Fourth Circuit Court of Appeals on December 7, 2016. By Order dated August 23, 2017, the Louisiana Fourth Circuit Court of

Appeals dismissed the plaintiffs' appeal without prejudice because the District Court's Judgment did not contain the necessary decretal language. To correct this deficiency, the District Court entered an Amended Judgment on September 19, 2017. On December 11, 2017, the plaintiffs appealed the Amended Judgment to the Louisiana Fourth Circuit Court of Appeals. 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. Briefing is complete and a decision is pending. The parties participated in unsuccessful non-binding mediation on October 18, 2018.

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

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

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

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

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, 2017.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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, 2018:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [(1)]	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in millions) [(1)]
7/1/18-7/31/18	84	$301.63	—	$ 78.3
8/1/18-8/31/18	41	287.35	—	78.3
9/1/18-9/30/18	32	276.20	—	78.3
Total	157	$292.72	—	

(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

The exhibits listed on the Exhibit Index following the signature page are filed as part of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.

EXHIBIT INDEX

Number	Description	By Reference To
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	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

*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 31, 2018 /s/ William C. Carstanjen
William C. Carstanjen
Chief Executive Officer
(Principal Executive Officer)

October 31, 2018 /s/ Marcia A. Dall
Marcia A. Dall
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)