CHURCHILL DOWNS Inc
Form 10-Q
August 01, 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 June 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes 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 July 25, 2018 was 13,563,116 shares.

CHURCHILL DOWNS INCORPORATED
INDEX TO QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended June 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 June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net revenue:				
Racing	$182.5	$165.3	$206.2	$189.2
TwinSpires	93.7	80.5	156.9	132.5
Casino	98.2	88.3	196.3	175.8
Other Investments	5.0	5.2	9.3	9.3
Total net revenue	379.4	339.3	568.7	506.8
Operating expense:				
Racing	85.3	76.5	121.2	112.9
TwinSpires	59.4	51.4	103.4	87.8
Casino	67.3	62.1	132.1	124.8
Other Investments	5.0	4.9	9.6	8.8
Corporate	0.6	0.6	1.1	1.2
Selling, general and administrative expense	23.1	20.2	41.5	38.8
Calder exit costs	—	0.2	—	0.6
Transaction expense, net	2.1	0.5	3.5	0.5
Total operating expense	242.8	216.4	412.4	375.4
Operating income	136.6	122.9	156.3	131.4
Other income (expense):				
Interest expense, net	(9.7)	(11.6)	(19.3)	(23.4)
Equity in income of unconsolidated investments	8.8	7.7	15.3	13.8
Miscellaneous, net	0.3	0.7	0.4	0.7
Total other expense	(0.6)	(3.2)	(3.6)	(8.9)
Income from continuing operations before provision for income taxes	136.0	119.7	152.7	122.5
Income tax provision	(32.8)	(47.0)	(35.4)	(47.6)
Income from continuing operations, net of tax	103.2	72.7	117.3	74.9
(Loss) income from discontinued operations, net of tax	(0.1)	5.6	167.8	10.7
Net income	$103.1	$78.3	$285.1	$85.6
Net income (loss) per common share data - basic:				
Continuing operations	$7.61	$4.52	$8.38	$4.62
Discontinued operations	$(0.01)	$0.34	$11.98	$0.65
Net income per common share data - basic:	$7.60	$4.86	$20.36	$5.27
Net income (loss) per common share data - diluted:				
Continuing operations	$7.57	$4.47	$8.34	$4.53
Discontinued operations	$(0.02)	$0.34	$11.92	$0.65
Net income per common share data - diluted:	$7.55	$4.81	$20.26	$5.18
Weighted average shares outstanding:				
Basic	13.5	16.1	14.0	16.2
Diluted	13.6	16.3	14.1	16.5
Other comprehensive loss:				
Foreign currency translation, net of tax	—	(0.3)	—	(0.4)
Change in pension benefits, net of tax	(0.2)	—	(0.2)	—
Other comprehensive loss	(0.2)	(0.3)	(0.2)	(0.4)

Comprehensive income	$102.9	$78.0	$284.9	$85.2

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

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions)	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$254.6	$ 51.7
Restricted cash	40.1	31.2
Accounts receivable, net	37.3	49.6
Income taxes receivable	—	35.6
Other current assets	22.1	18.9
Current assets of discontinued operations held for sale	—	69.1
Total current assets	354.1	256.1
Property and equipment, net	668.5	608.0
Investment in and advances to unconsolidated affiliates	176.8	171.3
Goodwill	317.6	317.6
Other intangible assets, net	166.5	169.4
Other assets	13.1	13.6
Long-term assets of discontinued operations held for sale	—	823.4
Total assets	$1,696.6	$ 2,359.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$79.0	$ 54.1
Purses payable	26.3	12.5
Account wagering deposit liabilities	31.5	24.0
Accrued expense	95.2	75.8
Income taxes payable	24.5	—
Current deferred revenue	13.6	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	274.1	453.2
Long-term debt, net of current maturities and loan origination fees	389.0	632.9
Notes payable, net of debt issuance costs	492.7	492.3
Non-current deferred revenue	21.1	29.3
Deferred income taxes	48.6	40.6
Other liabilities	17.9	16.0
Non-current liabilities of discontinued operations held for sale	—	54.8
Total liabilities	1,243.4	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 June 30, 2018 and 15.4 shares at December 31, 2017	6.0	7.3
Retained earnings	448.1	634.3
Accumulated other comprehensive loss	(0.9)	(1.3)
Total shareholders' equity	453.2	640.3
Total liabilities and shareholders' equity	$1,696.6	$ 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)

	Six Months Ended June 30,	
(in millions)	2018	2017
Cash flows from operating activities:		
Net income	$285.1	$85.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29.1	49.3
Game software development amortization	0.4	8.7
Gain on sale of Big Fish Games	(219.5)	—
Distributed earnings from unconsolidated affiliates	9.9	8.7
Equity in income of unconsolidated affiliates	(15.3)	(13.8)
Stock-based compensation	12.6	11.7
Deferred income taxes	6.9	—
Big Fish Games earnout payment	(2.4)	(2.5)
Big Fish Games deferred payment	(2.0)	—
Other	1.7	1.7
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of business acquisitions and dispositions:		
Game software development	(0.3)	(11.3)
Income taxes	55.3	50.0
Deferred revenue	(43.7)	(34.9)
Other assets and liabilities	44.5	15.2
Net cash provided by operating activities	162.3	168.4
Cash flows from investing activities:		
Capital maintenance expenditures	(13.7)	(17.9)
Capital project expenditures	(58.7)	(46.1)
Acquisition of a business	—	(23.1)
Proceeds from sale of Big Fish Games	970.7	—
Receivable from escrow	—	13.6
Investment in unconsolidated affiliates	—	(24.0)
Other	(5.9)	0.2
Net cash provided by (used in) investing activities	892.4	(97.3)
Cash flows from financing activities:		
Proceeds from borrowings under long-term debt obligations	117.2	543.6
Repayments of borrowings under long-term debt obligations	(361.3)	(394.2)
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)	(181.0)
Other	(4.4)	3.8
Net cash used in financing activities	(844.9)	(81.3)
Net increase (decrease) in cash, cash equivalents and restricted cash	209.8	(10.2)
Effect of exchange rate changes on cash	(0.6)	0.6
Cash, cash equivalents and restricted cash, beginning of period	85.5	83.0
Cash, cash equivalents and restricted cash, end of period	$294.7	$73.4

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

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

(in millions)	Six Months Ended June 30, 2018	2017
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$8.5	$21.4
Income taxes	23.7	9.0
Schedule of non-cash investing and financing activities:		
Property and equipment additions included in accounts payable and accrued expenses	21.9	—

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.

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 64 live thoroughbred race days in the second quarter of 2018 and 2017. For the six months ended June 30, 2018, we conducted 118 live thoroughbred race days, compared to 119 live thoroughbred race days during the six months ended June 30, 2017.

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

	At June 30, 2018		
(in millions)	As Reported	Balances without Adoption of ASC 606	Effect of Change Increase/(Decrease)
ASSETS			
Accounts receivable, net	$37.3	$ 38.0	$ (0.7)
Other assets	13.1	14.9	(1.8)
LIABILITIES			
Accrued expense	95.2	94.4	0.8
Income taxes payable	24.5	24.3	0.2
Current deferred revenue	13.6	15.4	(1.8)
Non-current deferred revenue	21.1	23.6	(2.5)
Deferred income taxes	48.6	48.4	0.2

SHAREHOLDERS' EQUITY			
Retained earnings	448.1	447.5	0.6

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 six months ended June 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 six months ended June 30, 2018 was not material.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 six months ended June 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:

	Six Months Ended June 30, 2017		
(in millions)	As Previously Reported	Adoption of ASU 2016-18	As Adjusted
Net cash provided by operating activities	$171.1	$ (2.7)	$ 168.4
Cash, cash equivalents and restricted cash, beginning of period	$48.7	$ 34.3	$ 83.0
Net decrease in cash, cash equivalents and restricted cash	(7.5)	(2.7)	(10.2)
Effect of exchange rate changes on cash	0.6	—	0.6
Cash, cash equivalents and restricted cash, end of period	$41.8	$ 31.6	$ 73.4

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 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, which requires companies to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. As currently issued, ASU 2016-02 will be effective in 2019 with earlier adoption permitted, and is to be applied at the beginning of the earliest comparative period in the financial statements using a modified retrospective approach. We are currently evaluating the impact of our pending adoption of this new standard, and we currently expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon our adoption of ASU 2016-02. The adoption of this new standard is not expected to have a material effect on net income.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 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 occur as all such wagers settle immediately. 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 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.