

CHURCHILL DOWNS INC

Form 10-K

February 26, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from _____ to _____

Commission file number 001-33998

(Exact name of registrant as specified in its charter)

Kentucky

61-0156015

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

600 North Hurstbourne Parkway, Suite 400

(502) 636-4400

Louisville, Kentucky 40222

(Address of principal executive offices) (zip code)

(Registrant's telephone number, including area code)

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

Common Stock, No Par Value

The NASDAQ Stock Market LLC

(Title of each class registered)

(Name of each exchange on which registered)

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

None

(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

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As of February 21, 2014, 17,944,490 shares of the Registrant's Common Stock were outstanding. As of June 30, 2013 (based upon the closing sale price for such date on the NASDAQ Global Market), the aggregate market value of the shares held by non-affiliates of the Registrant was \$1,095,622,642.

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held on April 22, 2014 are incorporated by reference herein in response to Items 10, 11, 12, 13 and 14 of Part III of Form 10-K. The exhibit index is located on pages 111-114.

CHURCHILL DOWNS INCORPORATED
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For the Year Ended December 31, 2013

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PART I

ITEM 1. BUSINESS

A. Introduction

Churchill Downs Incorporated (the “Company”) is a diversified provider of pari-mutuel horseracing, casino gaming, entertainment, and is the country’s premier source of online account wagering on horseracing events. We offer gaming products through our casinos in Mississippi, our slot and video poker operations in Louisiana, our slot and poker operations in Florida, our slot and table games operations in Maine and our video lottery terminal joint venture facility in Ohio. We were organized as a Kentucky corporation in 1928. Our principal executive offices are located at 600 North Hurstbourne Parkway, Suite 400, Louisville, Kentucky, 40222.

We manage our operations through four operating segments as follows:

1. Racing Operations, which includes:

Churchill Downs Racetrack (“Churchill Downs”) in Louisville, Kentucky, an internationally known thoroughbred racing operation and home of the Kentucky Derby since 1875;

Arlington International Race Course (“Arlington”), a thoroughbred racing operation in Arlington Heights along with eleven off-track betting facilities (“OTBs”) in Illinois;

Calder Race Course (“Calder”), a thoroughbred racing operation in Miami Gardens, Florida; and

Fair Grounds Race Course (“Fair Grounds”), a thoroughbred racing operation in New Orleans along with twelve OTBs in Louisiana.

2. Gaming, which includes:

- Oxford Casino (“Oxford”) in Oxford, Maine, which we acquired on July 17, 2013. Oxford operates approximately 850 slot machines, 26 table games and various dining facilities;

Riverwalk Casino Hotel (“Riverwalk”) in Vicksburg, Mississippi, which we acquired on October 23, 2012. Riverwalk operates approximately 710 slot machines, 22 table games, a five story, 80-room attached hotel, multi-functional event center and dining facilities;

Harlow’s Casino Resort & Spa (“Harlow’s”) in Greenville, Mississippi, which operates approximately 750 slot machines, 13 table games, a five-story, 105-room attached hotel, multi-functional event center, pool, spa and dining facilities;

Calder Casino, a slot facility in Florida adjacent to Calder, which operates approximately 1,140 slot machines and includes a poker room operation branded “Studz Poker Club”;

Fair Grounds Slots, a slot facility in Louisiana adjacent to Fair Grounds, which operates approximately 620 slot machines; and

Video Services, LLC (“VSI”), the owner and operator of approximately 780 video poker machines in Louisiana.

3. Online Business, which includes:

TwinSpires, an Advance Deposit Wagering (“ADW”) business that is licensed as a multi-jurisdictional simulcasting and interactive wagering hub in the state of Oregon;

Fair Grounds Account Wagering (“FAW”), an ADW business that is licensed in the state of Louisiana;

Velocity, a business that is licensed in the British Dependency Isle of Man focusing on high wagering-volume international customers;

Luckity, an ADW business launched during October 2012 that offers real-money bingo with outcomes based on and determined by pari-mutuel wagers on live horseraces;

Bloodstock Research Information Services (“BRIS”), a data service provider for the equine industry; and

Our equity investment in HRTV, LLC (“HRTV”), a horseracing television channel.

4. Other Investments, which includes:

United Tote Company and United Tote Canada (collectively “United Tote”), which manufactures and operates pari-mutuel wagering systems for racetracks, OTBs and other pari-mutuel wagering businesses;

Bluff Media ("Bluff"), a multimedia poker content brand and publishing company, acquired by the Company on February 10, 2012;

Our equity investment in Miami Valley Gaming & Racing, LLC ("MVG"), a 50% joint venture harness racetrack and video lottery terminal facility in Lebanon, Ohio, which opened December 12, 2013. MVG has 1,600 video lottery machines; and

Our other minor investments.

B. Acquisition, Development & Disposal Activity

Oxford

On July 17, 2013, the Company completed its acquisition of Oxford in Oxford, Maine for cash consideration of approximately \$168.6 million. The transaction included the acquisition of a 25,000-square-foot casino with various dining facilities on approximately 130 acres of land. The acquisition continued the Company's diversification and growth strategies to invest in assets with rates of returns attractive to the Company's shareholders. The Company financed the acquisition with borrowings under its senior secured credit facility. During December 2013, Oxford continued an expansion of its facilities, adding an additional 46 slot machines and four table games. An additional twelve slot machines will be added to the facilities during 2014.

Riverwalk

On October 23, 2012, we completed our acquisition of Riverwalk in Vicksburg, Mississippi for cash consideration of approximately \$145.6 million. The transaction includes the acquisition of a 25,000-square-foot casino, an 80-room hotel, a 5,600-square-foot event center and dining facilities on approximately 22 acres of land.

Miami Valley Gaming & Racing Joint Venture

During March 2012, the Company entered into a 50% joint venture with Delaware North Companies Gaming & Entertainment Inc. ("DNC") to develop a new harness racetrack and video lottery terminal ("VLT") gaming facility in Lebanon, Ohio.

Through the joint venture agreement, the Company and DNC formed a new company, MVG, which will manage both the Company's and DNC's interests in the development and operation of the racetrack and VLT gaming facility.

During the years ended December 31, 2013 and 2012, the Company funded \$70.5 million and \$19.9 million in initial capital contributions to the joint venture, respectively. The Company anticipates providing funding of \$24.0 million to MVG during 2014. On December 21, 2012, MVG completed the purchase of the harness racing licenses and certain assets held by Lebanon Trotting Club Inc. and Miami Valley Trotting Inc. for total consideration of \$60.0 million, of which \$10.0 million was funded at closing with the remainder funded through a \$50.0 million note payable with a six year term effective upon the commencement of gaming operations. In addition, there is a potential contingent consideration payment of \$10.0 million based on the financial performance of the facility during the seven year period after gaming operations commence.

Construction began in December 2012 on the new gaming and racing facility in Lebanon, Ohio on a 120-acre site. On December 12, 2013, MVG commenced operations at the new facility. The new facility features 1,600 video lottery terminals, a racing simulcast center, and a 5/8-mile harness racetrack which can accommodate more than 1,000 harness-racing fans in an indoor grandstand. MVG has invested approximately \$212.0 million in the new facility, which includes a \$50.0 million license fee payable to the Ohio Lottery Commission.

Bluff

Bluff, which was acquired in February 2012, operates a poker periodical, BLUFF Magazine and BluffMagazine.com; ThePokerDB, a comprehensive online database and resource that tracks and ranks the performance of poker players and tournaments; and various other news and content forums. On December 18, 2013, we completed the sale of 100% of the assets of Fight! Magazine ("Fight"), a division of Bluff.

Kentucky Off-Track Betting, LLC

Kentucky Off-Track Betting, LLC ("KOTB") owned and operated facilities for the simulcasting of races and the acceptance of wagers on such races at Kentucky locations other than a racetrack. OTBs developed by KOTB provided additional markets for the intrastate simulcasting of and wagering on Churchill Downs' live races and interstate simulcasting of and wagering on out-of-state signals. We held a 25% ownership stake in KOTB, which ceased

operations during June 2013. KOTB did not contribute significantly to our operations and its closure did not have a material impact on our results of operation.

C.Live Racing

We conduct live horseracing at Churchill Downs, Calder, Fair Grounds and Arlington. The following is a summary of our significant live racing events, a description of our properties and our annual racing calendar.

The Kentucky Derby and the Kentucky Oaks, both held at Churchill Downs, continue to be our premier racing events offering minimum purses of \$2.0 million and \$1.0 million, respectively. The Kentucky Derby is the first race of the annual series of races for 3-year old thoroughbreds, known as the Triple Crown. Our other significant stakes races include the Summit of Speed at Calder, the Arlington Million at Arlington, and the Louisiana Derby at Fair Grounds, each of which offers purses of approximately \$1.0 million.

Churchill Downs

The Churchill Downs racetrack site and improvements (the "Churchill facility") are located in Louisville, Kentucky. Churchill Downs has conducted thoroughbred racing continuously since 1875 and is internationally known as the home of the Kentucky Derby. The Churchill facility consists of approximately 147 acres of land with a one-mile dirt track, a seven-eighths (7/8) mile turf track, permanent grandstands, luxury suites and a stabling area. The Churchill facility accommodates approximately 55,600 persons in our clubhouse, grandstand, Jockey Club Suites, Finish Line Suites, and Mansion. The facility also includes a simulcast wagering facility designed to accommodate 1,500 persons, a general admissions area, and food and beverage facilities ranging from concessions to full-service restaurants. The Churchill facility also has a saddling paddock, accommodations for groups and special events, parking areas for the public, our racetrack office facilities, and includes permanent lighting in order to accommodate night races. The stable area has barns sufficient to accommodate approximately 1,400 horses, a 114-room dormitory and other facilities for backstretch personnel. During January 2013, the facility opened a new simulcast wagering facility, "The Parlay", designed to accommodate 600 persons, which is Churchill Downs' simulcast wagering facility during the months outside of its live racing meets and houses the track's media operations in the weeks leading up to the Kentucky Derby. The facility also opened a new hospitality venue, "The Mansion", during the second quarter of 2013. The Mansion, located on the sixth floor of the Clubhouse, is used primarily during the Kentucky Derby and Kentucky Oaks. The Mansion has accommodations for 296 guests and offers settings in its Dining Room, Living Room, Library, Parlor and Veranda. During the second quarter of 2014, the Churchill facility is expected to open the Grandstand Terrace and Rooftop Garden. This new area will offer nearly 2,400 new seats, and it will expand and update the restrooms, wagering windows and food and beverage offerings. Additionally, during the second quarter of 2014, the Churchill facility expects to complete the installation of a 15,224 square foot, state of the art high-definition video board, which will provide an enhanced viewing experience for patrons.

To supplement the facilities at Churchill Downs, we provide additional stabling facilities sufficient to accommodate 500 horses and a three-quarter (3/4) mile dirt track, which is used for training thoroughbreds, at a training facility also located in Louisville. Referred to as Trackside Louisville, this facility provides a base of operation for many horsemen between the Spring and Fall meets and enables us to attract new horsemen to race at Churchill Downs. Trackside Louisville is not open to stabling during the winter months.

As part of financing improvements to the Churchill facility, during 2002, we transferred title of the Churchill facility to the City of Louisville, Kentucky and leased back the facility. Subject to the terms of the lease, we can re-acquire the facility at any time for \$1.00.

Calder

The Calder racetrack and improvements (the "Calder facility") are located in Miami-Dade County, Florida. The Calder facility is adjacent to Sun Life Stadium, home of the Miami Dolphins, and consists of approximately 231 acres of land with a one-mile dirt track, a seven-eighths (7/8) mile turf track, a training area with a five-eighths (5/8) mile training track, permanent grandstands and a stabling area. The Calder facility includes clubhouse and grandstand seating for approximately 15,000 persons, a general admissions area and food and beverage facilities ranging from concessions to a buffet dining area. The stable area consists of a receiving barn, feed rooms, tack rooms, detention barns and living quarters and can accommodate approximately 1,800 horses. The Calder facility also features a saddling paddock, parking areas for the public and office facilities.

Fair Grounds

The Fair Grounds racetrack facility, located in New Orleans, Louisiana, consists of approximately 145 acres of land, a one-mile dirt track, a seven-eighths (7/8) mile turf track, permanent grandstands and a stabling area. The facility includes clubhouse and grandstand seating for approximately 5,000 persons, a general admissions area and food and

beverage facilities ranging from concessions to clubhouse dining. The stable area consists of a receiving barn, feed rooms, tack rooms, detention barns and living quarters that can accommodate 132 persons and approximately 2,000 horses. The Fair Grounds facility also features a saddling paddock, parking areas and office facilities.

Arlington

The Arlington racetrack, located in Arlington Heights, Illinois, was constructed in 1927 and reopened its doors in 1989 after a devastating fire four years earlier. The racetrack sits on 336 acres, has a one and one-eighth (1 1/8) mile synthetic track, a one-mile turf track and a five-eighths (5/8) mile training track. The facility includes a permanent clubhouse, grandstand and suite seating for 6,045 persons and food and beverage facilities ranging from fast food to full-service restaurants. The stable area has 34 barns able to accommodate approximately 2,200 horses and a temporary housing unit that accommodates 288 persons. The Arlington facility also features a saddling paddock, parking areas and office facilities.

Racing Calendar

The following table is a summary of our expected 2014 and actual 2013 live thoroughbred racing dates and the number of live racing days for each of our four racetracks. Racing dates are generally approved annually by the respective state racing authorities:

Racetrack	2014		2013	
	Racing Dates	# of Days	Racing Dates	# of Days
Churchill Downs				
Spring Meet	April 26 - June 29	38	April 27 - June 30	38
September Meet	Sept. 4 - Sept 28	12	Sept. 5 - 29	12
Fall Meet	Oct. 26 - Nov. 30	26	Oct. 27 - Nov. 30	25
		76		75
Calder Race Course				
Calder Meet	Jan. 1 - Aug. 31	119	April 6- Aug. 31	76
Tropical Meet	Sept. 1 - Dec. 31	40	Sept. 1 - Dec. 31	53
		159		129
Arlington	May 2 - Sept. 28	89	May 1 - Sept. 30	89
Fair Grounds				
Winter Meet 12/13			Jan. 1 - Mar. 31	56
Winter Meet 13/14	Jan. 1 - Mar. 30	59	Nov. 22 - Dec. 31	25
Winter Meet 14/15	Nov. 20 - Dec. 31	26		
		85		81