

CHURCHILL DOWNS INC
Form DEF 14A
March 24, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

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CHURCHILL DOWNS INCORPORATED

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

CHURCHILL DOWNS INCORPORATED

600 N. HURSTBOURNE PARKWAY, STE. 400

LOUISVILLE, KENTUCKY 40222

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON APRIL 22, 2014

To the Shareholders of

Churchill Downs Incorporated:

Notice is hereby given that the Annual Meeting of Shareholders (the Annual Meeting) of Churchill Downs Incorporated (the Company), a Kentucky corporation, will be held at the Cincinnati Marriott Northeast, located at 9664 S. Mason Montgomery Road, Mason, Ohio 45040, on Tuesday, April 22, 2014, at 9:00 a.m. Eastern Daylight Saving Time, for the following purposes:

- I. To elect two (2) Class III Directors for a term of three (3) years (Proposal No. 1);
- II. To approve an amendment to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan to increase the number of shares available for issuance thereunder by 1.8 million shares (Proposal No. 2);
- III. To ratify the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for fiscal year 2014 (Proposal No. 3);
- IV. To conduct an advisory vote on executive compensation (Proposal No. 4); and
- V. To transact such other business as may properly come before the meeting or any adjournment thereof, including matters incident to its conduct.

The close of business on February 28, 2014, has been fixed as the record date for determining the shareholders entitled to notice of, and to vote at, the Annual Meeting. Only shareholders of record at that time will be entitled to notice of and to vote at the Annual Meeting and at any adjournments thereof.

Shareholders who do not expect to attend the meeting in person are urged to sign, date and promptly return the Proxy that is enclosed herewith or vote by telephone or over the Internet.

By Order of the Board of Directors.

ALAN K. TSE

Executive Vice President,

General Counsel and Secretary

March 24, 2014

CHURCHILL DOWNS INCORPORATED

600 N. HURSTBOURNE PARKWAY, STE. 400

LOUISVILLE, KENTUCKY 40222

PROXY STATEMENT

Annual Meeting of Shareholders to be held on April 22, 2014

The enclosed Proxy is being solicited by the Board of Directors (the Board of Directors or Board) of Churchill Downs Incorporated to be voted at the 2014 Annual Meeting of Shareholders to be held on Tuesday, April 22, 2014, at 9:00 a.m. Eastern Daylight Saving Time (the Annual Meeting), at **the Cincinnati Marriott Northeast, located at 9664 S. Mason Montgomery Road, Mason, Ohio 45040**, and any adjournments thereof. This solicitation is being made primarily by mail and at the expense of the Company. Certain officers and directors of the Company and persons acting under their instruction may also solicit proxies on behalf of the Board of Directors by means of telephone calls, personal interviews and mail at no additional expense to the Company. The Proxy Card and this Proxy Statement are being sent to shareholders on or about March 24, 2014.

Voting Rights

Only holders of record of the Company's Common Stock, no par value (Common Stock), on February 28, 2014, are entitled to notice of and to vote at the Annual Meeting. On that date, **17,944,984** shares of Common Stock were outstanding and entitled to vote. Each shareholder has one vote per share on all matters coming before the Annual Meeting. The shareholders of the Company do not have cumulative voting rights in the election of directors. Under the Company's Amended and Restated Articles of Incorporation and Amended and Restated Bylaws and the applicable provisions of Kentucky law, abstentions and broker non-votes are not counted in determining the number of votes required for the election of a director or passage of any matter submitted to the shareholders. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists.

If the enclosed Proxy is properly executed and returned prior to the Annual Meeting, the shares represented thereby will be voted as specified therein. If a shareholder does not specify otherwise, the shares represented by the shareholder's proxy will be voted: (i) for the election of the nominees listed below under Election of Directors ; (ii) for approval of the amendment to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan to increase the number of shares available for issuance thereunder by 1.8 million shares; (iii) for the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2014; (iv) for the advisory approval of the compensation of the Company's named executive officers as disclosed in this proxy statement pursuant to the compensation disclosure rules of the SEC; and (v) in the discretion of the person or persons voting the proxies, on such other business as may properly come before the annual meeting or any adjournments thereof.

Voting Instructions and Information

The enclosed proxy is solicited on behalf of the Board of Directors of Churchill Downs Incorporated, a Kentucky corporation (Company, CDI, or CHDN) for use at the Company Annual Meeting of Shareholders to be held on April 22, 2014, or at any adjournment thereof (Annual Meeting or 2014 Annual Meeting of Shareholders).

When and where is our Annual Meeting?

We will hold our Annual Meeting on Tuesday, April 22, 2014 at 9:00 a.m., Eastern Daylight Saving Time, at the Cincinnati Marriott Northeast, located at 9664 S. Mason Montgomery Road, Mason, Ohio 45040.

How are we distributing our proxy materials?

We are using the rule of the United States Securities and Exchange Commission (SEC) that allows companies to furnish proxy materials to their shareholders using the full set delivery option; however, the Company may elect to use the notice only option in the future. A company may use either option, notice only or full set delivery, for all of its shareholders or may use one method for some shareholders and the other method for others. Pursuant to the rules governing the full set delivery option, a company may provide proxy materials in paper form and send them via standard United States mail or, if a shareholder has previously elected, may provide the proxy materials in electronic form and send them via e-mail. In addition to delivering materials to shareholders, the Company is obligated to post all proxy materials on a publicly available website and provide information to shareholders about how to access that website.

Accordingly, each shareholder will receive the Company's proxy materials by mail or, if previously agreed to by a shareholder, by e-mail. These proxy materials include the Notice of Annual Meeting of Shareholders, proxy statement, proxy card and Annual Report. These materials are also available at <http://www.churchilldownsincorporated.com/proxy>.

Who can vote at the Annual Meeting?

You are entitled to vote or direct the voting of your shares of CHDN's Common Stock, if you were a shareholder of record or if you held CHDN Common Stock in street name at the close of business on Friday, February 28, 2014 (the Record Date). On that date, 17,944,984 shares of CHDN Common Stock were outstanding. Each share of CHDN Common Stock held by you on the Record Date is entitled to one vote.

What do I need to attend, and vote at, the Annual Meeting?

If you plan on attending the Annual Meeting, please remember to bring photo identification with you, such as a driver's license. In addition, if you hold shares in street name and would like to attend the Annual Meeting, you must bring an account statement or other acceptable evidence of ownership of CHDN Common Stock as of the close of business on the Record Date. In order to vote at the Annual Meeting if you hold shares in street name, you will also need a valid legal proxy, which you can obtain by contacting your account representative at the broker, bank or similar institution through which you hold your shares.

What proposals will be voted on at the Annual Meeting?

Four proposals from the Company will be considered and voted on at the Annual Meeting:

1. To elect two (2) Class III Directors for a term of three (3) years (Proposal No. 1);
2. To approve an amendment to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan to increase the number of shares available for issuance thereunder by 1.8 million shares (Proposal No. 2);

3. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2014 (Proposal No. 3); and

4. To conduct an advisory vote on executive compensation (Proposal No. 4).

You may also vote on any other business as may properly come before the meeting or any adjournment thereof, including matters incident to the meeting's conduct.

How does the Board of Directors recommend I vote?

CDI's Board of Directors unanimously recommends that you vote:

1. **FOR** each of the nominees specified under "Nominees for Election as Directors" to the Board of Directors.
2. **FOR** the amendment to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan.
3. **FOR** the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2014.
4. **FOR** the proposal to approve, on a non-binding advisory basis, executive compensation.

How do I vote?

You may cast your vote in one of four ways:

By Submitting a Proxy by Internet. Go to the following website: www.proxyvote.com. You may submit a proxy by Internet 24 hours a day. To be valid, your proxy by Internet must be received by 11:59 p.m., Eastern Daylight Saving Time, on April 21, 2014. Please have your Notice of Internet Availability of Proxy Materials or your proxy card available when you access the website and follow the instructions to create an electronic voting instruction form.

By Submitting a Proxy by Telephone. To submit a proxy using the telephone, call 1-800-690-6903 any time on a touch-tone telephone. There is NO CHARGE to you for the call in the United States or Canada. International calling charges apply outside the United States and Canada. You may submit a proxy by telephone 24 hours a day, 7 days a week. Follow the simple prompts and instructions provided by the recorded message. To be valid, your proxy by telephone must be received by 11:59 p.m. Eastern Daylight Saving Time, on April 21, 2014.

By Submitting a Proxy by Mail. Mark your proxy card, sign and date it, and return it in the prepaid envelope that has been provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. To be valid, your proxy by mail must be received by 7:00 a.m., Eastern Daylight Saving Time, on April 22, 2014.

At the Annual Meeting. You can vote your shares in person at the Annual Meeting (see "What do I need to attend, and vote at, the Annual Meeting?"). If you are a shareholder of record, in order to vote at the Annual Meeting, you must present an acceptable form of photo identification, such as a driver's license. If you hold your shares in street name, you must obtain a legal proxy, as described above under "What do I need to attend, and vote at, the Annual Meeting?", and bring that proxy to the Annual Meeting.

How can I revoke my proxy or substitute a new proxy or change my vote?

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You can revoke your proxy or substitute a new proxy by use of any of the following means:

For a Proxy Submitted by Internet or Telephone

By submitting in a timely manner a new proxy through the Internet or by telephone that is received by 11:59 p.m., Eastern Daylight Saving Time, on April 21, 2014; or

Executing and mailing a later-dated proxy card that is received prior to 7:00 a.m., Eastern Daylight Saving Time, on April 22, 2014; or

By voting in person at the Annual Meeting.

For a Proxy Submitted by Mail

Executing and mailing another proxy card bearing a later date that is received prior to 7:00 a.m., Eastern Daylight Saving Time, on April 22, 2014; or

Giving written notice of revocation to CDI's Secretary at 600 N. Hurstbourne Parkway, Ste. 400, Louisville, Kentucky 40222 that is received by CDI prior to 7:00 a.m., Eastern Daylight Saving Time, on April 22, 2014; or

By voting in person at the Annual Meeting.

Security Ownership of Certain Beneficial

Owners and Management

The following table sets forth information as of February 28, 2014, (except as otherwise indicated below) regarding the beneficial ownership of the Common Stock by the only persons known by the Company to beneficially own more than five percent (5%) of the Common Stock, each director of the Company, each named executive officer (as defined in Executive Compensation-Summary Compensation Table herein), and the Company's directors and executive officers as a group. Except as otherwise indicated, the persons named in the table have sole voting and investment power with respect to all of the shares of Common Stock shown as beneficially owned by them. The percentage of beneficial ownership is calculated based on **17,944,984** shares of Common Stock outstanding as of February 28, 2014. We are not aware of any pledge of our Common Stock or any other arrangements the operation of which may at a subsequent date result in a change in control of our Company. The Company's Insider Trading Policy requires that directors, officers or other employees of the Company must obtain pre-clearance from the Company's General Counsel at least two (2) weeks prior to the proposed execution of documents evidencing the pledge of any shares of the Company's Common Stock.

Name of Beneficial Owner	Amount and Nature Of Beneficial Ownership	Percent of Class
The Duchossois Group, Inc. (f/k/a Duchossois Industries, Inc.)	2,944,756	16.41
845 Larch Avenue		
Elmhurst, IL 60126		
PAR Capital Management, Inc.	1,286,544	7.17
1 International Place, #2401		
Boston, MA 02110		
GAMCO Investors, Inc. and affiliates	1,268,224 ⁽¹⁾	7.07
One Corporate Center		
Rye, NY 10580-1435		
Wellington Management Co. LLP	1,072,686	5.98
280 Congress Street		
Boston, Massachusetts 02210		
Ulysses L. Bridgeman, Jr.	-0- ⁽²⁾	*
Leonard S. Coleman, Jr.	-0-	*
Craig J. Duchossois	3,099,543 ⁽³⁾	17.27
Richard L. Duchossois	3,200,270 ⁽⁴⁾	17.83
Robert L. Fealy	-0- ⁽⁵⁾	*
Daniel P. Harrington	233,299 ⁽⁶⁾	1.30
G. Watts Humphrey, Jr.	51,000	0.28
James F. McDonald	2,011 ⁽⁷⁾	*
R. Alex Rankin	5,587	*
Darrell R. Wells	140,000	0.78
William C. Carstanjen	102,701 ⁽⁸⁾	0.57
Robert L. Evans	387,962 ⁽⁹⁾	2.16
James E. Gay	46,728 ⁽¹⁰⁾	0.26
William E. Mudd	87,801 ⁽¹¹⁾	0.49
Alan K. Tse	22,487 ⁽¹²⁾	0.13
15 Directors and Executive Officers as a Group	4,297,492 ⁽¹³⁾	23.95

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* Less than 0.1%

- (1) GAMCO, and its collective subsidiaries and affiliates, owns beneficial interest of 7.05%. The percent of class reflected in the above table includes a 5.09% interest held by GAMCO Asset Management, Inc., a 1.54% interest held by Gabelli Funds LLC, a 0.41% interest held by Teton Advisors, Inc., and a 0.01% interest held by Mario J. Gabelli. All are related entities.

- (2) As of February 28, 2014, Mr. Bridgeman had 261 deferred shares under the Plan.
- (3) Mr. Craig J. Duchossois is the son of Mr. Richard L. Duchossois, who is also a director of the Company. Craig J. Duchossois shares voting and investment power with respect to 2,944,756 shares owned by The Duchossois Group, Inc. (formerly known as Duchossois Industries, Inc.) and 137,141 shares owned by 845 Larch Acquisition Corp., LLC, an affiliate of The Duchossois Group, Inc. Mr. Craig J. Duchossois also shares voting and investment power with respect to 17,646 shares owned by three trusts. He specifically disclaims beneficial ownership of these shares. Of the shares listed as beneficially owned by Mr. Craig J. Duchossois, 3,081,897 shares are also listed as beneficially owned by Mr. Richard L. Duchossois. In addition, also see Note (2) on page 16.
- (4) Mr. Richard L. Duchossois is the father of Mr. Craig J. Duchossois, who is also a director of the Company. Mr. Richard L. Duchossois shares voting and investment power with respect to 2,944,756 shares owned by The Duchossois Group, Inc. (formerly known as Duchossois Industries, Inc.) and 137,141 shares owned by 845 Larch Acquisition Corp., LLC, an affiliate of The Duchossois Group, Inc. Mr. Richard L. Duchossois also shares voting and investment power with respect to 118,373 shares owned by the RLD Revocable Trust. He specifically disclaims beneficial ownership of these shares. Of the shares listed as beneficially owned by Mr. Richard L. Duchossois, 3,081,897 shares are also listed as beneficially owned by Mr. Craig J. Duchossois. See also Note (2) on page 16.
- (5) See Note (2) on page 16 for deferred shares awarded to Mr. Fealy. As of February 28, 2014, Mr. Fealy has elected to defer shares awarded by the Company for his board service.
- (6) Mr. Harrington shares voting and investment power with respect to 233,299 shares held by TVI Corp. He specifically disclaims beneficial ownership of these shares. See Note (2) on page 16.
- (7) See Note (2) on page 16.
- (8) Excludes 9,209 restricted shares awarded under the Company's Long Term Incentive Plan (2007 Omnibus Plan) over which Mr. Carstanjen has neither voting nor dispositive power until the lapse of the applicable two and three-year restriction periods, in which such shares vest quarterly in equal installments, pursuant to the restricted stock agreements governing these awards. Excludes 15,000 restricted shares awarded pursuant to Mr. Carstanjen's employment agreement over which Mr. Carstanjen has neither voting nor dispositive power until the lapse of the three-year restriction period ending March 31, 2014. Excludes 25,000 restricted shares awarded under the Company's New Long Term Incentive Program (2007 Omnibus Plan) over which Mr. Carstanjen has neither voting nor dispositive power until December 31, 2015, at which time 12,500 shares shall vest without restriction, and December 31, 2016 at which time the remaining 12,500 shall vest without restriction.
- (9) Includes 65,000 vested restricted stock units and 180,000 currently exercisable options, but excludes 42,656 restricted shares awarded pursuant to Mr. Evans' employment agreement over which Mr. Evans has neither voting nor dispositive power until the lapse of certain restrictions pursuant to the restricted stock agreements governing the awards.
- (10) Excludes 4,232 restricted shares awarded under the Company's Long Term Incentive Plan (2007 Omnibus Plan) over which Mr. Gay has neither voting nor dispositive power until the lapse of the applicable two and three-year restriction period, in which shares vest quarterly in equal installments, pursuant to the restricted stock agreements governing these awards. Excludes 12,000 restricted shares awarded under the Company's New Long Term Incentive Program (2007 Omnibus Plan) over which Mr. Gay has neither voting nor dispositive power until December 31, 2015, at which time 6,000 shares shall vest without restriction, and December 31, 2016 at which time the remaining 6,000 shall vest without restriction.
- (11) Includes 4,500 shares issuable under currently exercisable options, and 7,053 restricted shares awarded under the Company's Long Term Incentive Plan (2007 Omnibus Plan) over which Mr. Mudd has neither voting nor dispositive power until the lapse of applicable two and three-year restriction periods, in which such shares vest quarterly in equal installments, pursuant to the restricted stock agreements governing these

awards. Excludes 15,000 restricted shares awarded pursuant to Mr. Mudd's employment agreement over which Mr. Mudd has neither voting nor dispositive power until the lapse of a restriction period ending on March 31, 2015. Excludes 20,000 restricted shares awarded under the Company's New Long Term Incentive Program (2007 Omnibus Plan) over which Mr. Mudd has neither voting nor dispositive power until December 31, 2015, at which time 10,000 shares shall vest without restriction, and December 31, 2016 at which time the remaining 10,000 shall vest without restriction.

(12) Excludes 1,410 restricted shares awarded under the Company's Long Term Incentive Plan (2007 Omnibus Plan) over which Mr. Tse has neither voting nor dispositive power until the lapse of the two and three-year restriction periods. Excludes 7,500 restricted shares awarded under the Company's New Long Term Incentive Program (2007 Omnibus Plan) over which Mr. Tse has neither voting nor dispositive power until December 31, 2014 at which time 2,500 shall vest without restriction, December 31, 2015 at which time 2,500 shall vest without restriction, and December 31, 2016 at which time the remaining 2,500 shares will vest without restriction.

(13) See table on page 16 and Executive Officers of the Company

Executive Officers of the Company

The Company's executive officers, as listed below, are elected annually to their executive offices and serve at the pleasure of the Board of Directors.

Name and Age	Position(s) With Company	and Term of Office
Robert L. Evans ⁽¹⁾	Chairman and Chief Executive Officer since June 2011; Chief Executive Officer from March 2011 to June 2011; President and Chief Executive Officer from August 2006 to March 2011	61
William C. Carstanjen ⁽²⁾	President and Chief Operating Officer since March 2011; Chief Operating Officer from January 2009 to March 2011; Executive Vice President and Chief Development Officer from June 2005 to January 2009; General Counsel from June 2005 to December 2006	46
James E. Gay ⁽³⁾	President, Churchill Downs Interactive since October 2012; Senior Vice President and Chief Strategy Officer from March 2012 to October 2012; Senior Vice President of Strategy and Business Development from January 2009 to March 2012; Vice President of Business Development from June 2006 to January 2009; Director of Business Development from March 2003 to June 2006	40
William E. Mudd ⁽⁴⁾	Executive Vice President and Chief Financial Officer since October 2007	42
Alan K. Tse ⁽⁵⁾	Executive Vice President and General Counsel since March 2011	42

(1) Prior to joining the Company, Mr. Evans served as the Managing Director of Symphony Technology Group, a strategic software holding group focused on the enterprise software and services market, and as President and CEO of Symphony Services Corp., a product engineering outsourcing services company, from 2002 to 2004. From 1999 to 2000, he served as President and Chief Operating Officer of i2 Technologies/Aspect Development.

(2) Prior to joining the Company, Mr. Carstanjen was employed at General Electric Company. From 2004 through June 2005, he served as the Managing Director and General Counsel of GE Commercial Finance, Energy Financial Services. From 2002 to 2004, he served as General Counsel of GE Specialty Materials and, from 2000 to 2002, he served as Transactions and Finance Counsel of GE Worldwide Headquarters.

(3) Mr. Gay has served the Company in various capacities since 2003. Prior to joining the Company, Mr. Gay was employed at the Stanford Investment Group, an investment management firm catering to high net worth individuals. From 1997 to 2001, he held several positions with SunTrust Bank, including positions in SunTrust's loan syndications and investment banking groups.

(4) Prior to joining the Company, Mr. Mudd was employed at General Electric Company. From 2006 through October 2007, he served as Chief Financial Officer, Global Commercial & Americas P&L of GE Infrastructure, Water & Process Technologies. From 2004 to 2006, he served as Chief Financial Officer, Supply Chain, Information Technology and Technology Finance, GE Consumer & Industrial Europe, Middle East, & Africa, Budapest and Hungary and, from 2002 to 2004, he served as Manager, Global Financial Planning & Analysis and Business Development.

(5) Prior to joining the Company, Mr. Tse was employed at LG Electronics Mobilecomm U.S.A., Inc., a leading cellular telephone manufacturer in the United States, where from January 2005 through March 2011, he served as Vice President and General Counsel.

Election of Directors

(Proposal No. 1)

At the Annual Meeting, shareholders will vote to elect two (2) persons to serve in Class III of the Board of Directors and to hold office for a term of three (3) years expiring at the 2017 Annual Meeting of Shareholders and thereafter until their respective successors shall be duly elected and qualified or until the earlier of their resignation, death or removal.

The Amended and Restated Bylaws of the Company provide that the Board of Directors shall be composed of not fewer than three (3) nor more than fifteen (15) members, the exact number to be established by the Board of Directors, and further provide for the division of the Board of Directors into three (3) approximately equal classes, of which one (1) class is elected annually to a three year term. Currently the Board of Directors is comprised of eleven (11) directors, with four (4) directors in Class I, four (4) directors in Class II and three (3) directors in Class III. The Company has a mandatory retirement age policy with regard to directors, which provides that a person is not qualified to serve as a director unless he or she is less than seventy (70) years of age on the date of election. However, the Board believes that it is important to monitor overall Board performance and suitability, and pursuant to the policy, upon the recommendation of the Nominating and Governance Committee, the Board may waive the effective date of mandatory retirement. There is one director in Class III that will have met the mandatory retirement age at the Annual Meeting, Darrell R. Wells. The Nominating and Governance Committee expects to fill the vacant Board seat created by Mr. Wells retirement in the near future.

Prior to the consideration of a waiver of the effective date of the mandatory retirement age for Mr. Wells, Mr. Wells expressed to the Board of Directors his desire not to be considered for such waiver. The Board accepted Mr. Wells' decision not to be considered for a waiver of the effective date of the mandatory retirement age on February 20, 2014. After twenty-nine (29) years of exceptional leadership as a director of the Company, Mr. Wells will become an Emeritus Director (see *Emeritus Directors* section below on pages 15-16) at the expiration of his current term as a director. Please also see the *Board Leadership Structure* section below on page 18.

The Company is a party to a Merger Agreement dated as of June 23, 2000, as amended (the *Merger Agreement*), between the Company and Duchossois Industries, Inc. (currently known as The Duchossois Group, Inc.), under which certain subsidiaries of the Company were merged into certain wholly-owned subsidiaries of Duchossois Industries, Inc. (the *Merger*). The Merger was approved by vote of the Company's shareholders at a Special Meeting of the shareholders on September 8, 2000. Pursuant to a Stockholder's Agreement between the Company and Duchossois Industries, Inc., as part of the Merger, Duchossois Industries, Inc. designated three (3) individuals for appointment and election to the Board of Directors. The Stockholder's Agreement provides that those individuals, Mr. Richard L. Duchossois, Mr. Craig J. Duchossois and Mr. Robert L. Fealy (or substitute designees reasonably acceptable to the Company), would be nominated to serve as directors of the Company, being allocated as equally as possible among the three classes of directors, for vote of the shareholders of the Company at the annual meeting of shareholders at which each respective class is then submitted for vote by the shareholders. In 2000, the Board of Directors of the Company appointed Mr. Craig J. Duchossois to serve as a member of Class I, Mr. Richard L. Duchossois to serve as a member of Class II and Mr. Robert L. Fealy to serve as a member of Class III. Mr. Craig J. Duchossois, Mr. Richard L. Duchossois and Mr. Robert L. Fealy have each been subsequently re-elected to the Board of Directors.

At the Annual Meeting, the two (2) persons named in the following table will be nominated on behalf of the Board of Directors for election as directors in Class III. The Nominating and Governance Committee has recommended, and the Board has approved, the nomination of these persons. The nominees currently serve as members of Class III and have agreed to serve if re-elected. With each shareholder having one vote per share to cast for each director position, the nominees receiving the greatest number of votes will be elected. The biographical information for our directors below includes information regarding certain of the experiences, qualifications, attributes and skills that led to the determination that such individuals are qualified to serve on the Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE FOLLOWING CLASS III DIRECTORS.

UNLESS OTHERWISE INSTRUCTED, IT IS THE INTENTION OF THE PERSONS NAMED IN THE PROXY TO VOTE THE SHARES REPRESENTED THEREBY FOR THE ELECTION OF THE CLASS III DIRECTORS NAMED BELOW.

Nominees for Election as Directors

The following table sets forth information relating to the Class III directors of the Company who are proposed to the shareholders for election to serve as directors until the expiration of their terms of office.

Name, Age and	Principal Occupation ⁽¹⁾
Positions with	and Certain Directorships ⁽²⁾
Company	Class III Terms Expiring in 2014
Robert L. Fealy 62 Director since 2000	Mr. Fealy serves as the President, Chief Operating Officer and Director of The Duchossois Group, Inc. (a family owned company with diversified business interests in companies with leading brands in the residential security, lighting and convenience products markets and the commercial control, automation and digital media markets). While Mr. Fealy was originally nominated to serve as a Director of the Company pursuant to the stockholder's agreement between the Company and Duchossois Industries, Inc. (as described above), the Company has been and will continue to be well served by Mr. Fealy's experience as a certified public accountant and senior executive with oversight of a diverse group of companies that has over 6,000 employees worldwide with operations located in over 30 countries as well as proven capabilities in strategic business planning in a variety of industries. Mr. Fealy currently holds the following leadership positions with other entities: Director, The Duchossois Group, Inc.; Director, The Chamberlain Group, Inc.; Chairman and Director, AMX LLC; Director, Milestone AV Technologies LLC; Managing Director, Duchossois Technology Partners, LLC; Lead Director and Chairman of the Audit Committee, Pella Corporation; Founding Board Member and Vice Chairman, Illinois Venture Capital Association; Director, Illinois Venture Capital Association PAC; Chairman and Director, Brivo Systems, Inc.; Chairman, Chicago Ventures and member of the Investment Committee of the Illinois Innovation Accelerator Fund; Chairman of the Board of Trustees, University of Cincinnati Foundation; Member, University of Cincinnati Business Advisory Council; Member, Advisory Board of the Polsky Center for Entrepreneurship and Innovation at the University of Chicago Booth School; Director, Chicago Children's Choir; Director, The Morton Arboretum.
Daniel P. Harrington 58 Director since 1998	Mr. Harrington serves as the President and Chief Executive Officer of HTV Industries, Inc. (private holding company with diversified business interests that include telecommunications, manufacturing distribution and banking). Among other exceptional personal and professional attributes, Mr. Harrington has extensive financial, accounting and chief executive experience within a variety of industries that qualifies Mr. Harrington as a member of the Board of Directors. In addition, Mr. Harrington qualifies as an Audit Committee Financial Expert, which makes him well suited for his current role as the Chairman of the Company's Audit Committee. Mr. Harrington also serves in the following leadership positions of other entities: Director, First Guaranty Bank; Trustee, The Veale Foundation. In addition, Mr. Harrington has served as a Director of First State Financial Corporation, Portec Rail Products, Inc. (and on the Audit and Compensation Committees) and Biopure Corporation (and on the Audit Committee).

- (1) Except as otherwise indicated, there has been no change in principal occupation or employment during the past five years.
- (2) Directorships at any time within the last 5 years in companies with a class of securities registered pursuant to Section 12 of the Exchange Act, subject to the requirements of Section 15(d) of the Exchange Act or companies registered under the Investment Company Act of 1940 and, in the case of certain directors, other directorships or positions considered significant by them.

The Board of Directors has no reason to believe that the nominees will be unavailable to serve as a director. If any nominee should become unavailable before the Annual Meeting, the persons named in the enclosed Proxy, or their substitutes, reserve the right to vote for substitute nominees selected by the Board of Directors.

Continuing Directors

The following tables set forth information relating to the Class I and Class II directors of the Company who will continue to serve as directors until the expiration of their respective terms of office.

Name, Age and

Positions with

Company

Principal Occupation⁽¹⁾

and Certain Directorships⁽²⁾

Class I Terms Expiring in 2015

Leonard S. Coleman, Jr.

65

Director since 2001

Mr. Coleman has served in multiple senior leadership positions in the major professional sports industry, including: Senior Advisor, Major League Baseball from 1999 to 2005; President, National League of Professional Baseball Clubs from 1994 to 1999. Among other exceptional personal and professional attributes, Mr. Coleman provides a unique perspective and is well suited to serve on the Board of the Company because of his experience as a senior executive in the major professional sports industry and as a director of large publicly traded companies in a variety of industries. Mr. Coleman currently holds the following leadership positions with other entities: Director, The Omnicom Group; Director, Electronic Arts, Inc.; Director, Avis-Budget Group, Inc.; and Director, Aramark Corporation; Chairman, The Jackie Robinson Foundation; Director, Spoleto Festival, Metropolitan Opera, The Schuman Fund and Urban America; Former Chairman, ARENACO, Inc. (subsidiary of New York Yankees/New Jersey Nets).

Craig J. Duchossois

69

Director since 2000

Mr. Duchossois serves as the Chief Executive Officer and a Director of The Duchossois Group, Inc., (a family-owned company with diversified business interests in companies with leading brands in the residential security, lighting and convenience products markets and the commercial control, automation and digital media markets). While Mr. Duchossois was originally nominated to serve as a Director of the Company pursuant to the stockholder's agreement between the Company and Duchossois Industries, Inc. (as described above), the Company has been and will continue to be well served by Mr. Duchossois' experience and proven capabilities in the international marketplace and technology industries in overseeing a diverse group of companies that have over 6,000 employees worldwide with operations located in over 30 countries, as well as his financial and business acumen. Mr. Duchossois currently holds the following leadership positions with other entities: Chairman, The Chamberlain Group, Inc.; Director, AMX LLC; Chief Executive Officer, TCMC, Inc.; Director, Amsted Industries, Inc.; not-for-profit board memberships include Culver Education Foundation, Illinois Institute of Technology, University of Chicago, Kellogg Graduate School of Management, World Business Chicago, the University of Chicago Hospitals, Executive's Club of Chicago, Economic Club, Chicago Council on Global Affairs and the Marine Corps Scholarship Foundation. He is a member of the Chief Executive Officer's Organization, World Presidents Organization, and the Civic Committee of the Commercial Club of Chicago. Mr. Duchossois also serves as an advisory board member for Levy Acquisition Corp., Frontenac Company and The Edgewater Funds. He is past-Chairman of the Board of Visitors for the United States Naval Academy.

Name, Age and

Positions with

Principal Occupation⁽¹⁾

Company

and Certain Directorships⁽²⁾

Robert L. Evans

61

Director since 2006

Mr. Evans is the Chairman of the Board and Chief Executive Officer of the Company. Please see Mr. Evans' positions with the Company, terms of office and other biographical information on page 8. Mr. Evans' role as the Chairman and Chief Executive Officer of the Company as well as his proven entrepreneurial experience and abilities, his experience in senior executive positions at some of North America's leading manufacturing (Mr. Evans served in a variety of management positions for Caterpillar Inc.), business consulting (former Managing Partner of the Americas Supply Chain Practice for the \$28 billion Accenture Ltd., formerly Andersen Consulting), technology (former President and Chief Operating Officer of Aspect Development Inc.) and private equity companies (Co-Founder and former Managing Director of Symphony Technology Group, a private equity firm that provides investment capital and strategic direction to software and services companies), and his experience in the thoroughbred horse racing industry qualify Mr. Evans to serve as a Director of the Company. Mr. Evans currently holds the following leadership positions with other entities: President, Tenlane Farm, LLC (a thoroughbred breeding and racing operation); Mr. Evans is a former director of IronPlanet, ATC Technology Corp., Symphony Services, and Trigo Technologies Inc.

G. Watts Humphrey, Jr.

69

Director since 1995

Mr. Humphrey is the President, GWH Holdings, Inc. (private investment company); Chairman, IPEG (international plastics machinery equipment company) and Centria (manufacturer and erector of metal building systems); and Owner, Shawnee Farm (thoroughbred breeding and racing operation). Among other exceptional personal and professional attributes, Mr. Humphrey has extensive experience in overseeing a diverse group of companies as well as in significant leadership roles throughout the thoroughbred horseracing industry that qualify Mr. Humphrey to serve as a member of the Board of Directors. Mr. Humphrey currently holds the following leadership positions with other entities: Member of The Jockey Club; Vice-Chairman, Blood-Horse Publications; Director, Keeneland; a Member of Executive Committee of Keeneland Assoc.; Member of the Board of Trustees, Breeders' Cup, Ltd.; Vice-Chairman, Shaker Village of Pleasant Hill; Director, Smithfield Trust Company; Director, Wausau Paper; Member of the Board of Trustees, Centre College. Previously, Mr. Humphrey served as Chairman of the Federal Reserve Bank Fourth District.

(1) There has been no change in principal occupation or employment during the past five years, except with respect to Mr. Evans (as described under "Executive Officers of the Company").

(2) Directorships at any time within the last 5 years in companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), subject to the requirements of Section 15(d) of the Exchange Act or companies registered under the Investment Company Act of 1940 and, in the case of certain directors, other directorships or positions considered significant by them.

Name, Age and

Positions with

Principal Occupation⁽¹⁾

Company

and Certain Directorships⁽²⁾

Class II Terms Expiring in 2016

Ulysses L. Bridgeman, Jr.

60

Director since 2012

Mr. Bridgeman is the owner and President of Manna, Inc. and ERJ Dining, LLC which currently oversee the administration and operation of 124 Chili's Restaurants in ten states, and 235 Wendy's Old Fashioned Hamburger Restaurants in seven states. The restaurants presently employ approximately 20,000 employees. According to the Restaurant Finance Monitor, Mr. Bridgeman is the second largest restaurant Franchisee in the United States. His educational background includes a Bachelor of Arts in Psychology from the University of Louisville in 1975. From 1975-1983 and from 1986-1987, Mr. Bridgeman played professional basketball with the Milwaukee Bucks. During the interim of 1983-1986 he played for the Los Angeles Clippers. During his professional basketball career, Mr. Bridgeman worked as a Sales and Public Relations Representative for Howard Johnson in Milwaukee. His experience also includes holding a position as an analyst with Towers, Perrin, Foster & Crosby Insurance Consultants in Milwaukee. Mr. Bridgeman's leadership skills were further developed through his eleven years with the NBA Players Association. As a Player Representative, he acted as a liaison between the players and management. He was directly involved in arbitration proceedings and also assisted with the implementation of special programs such as Career Alternatives, Fitness and Wellness and Financial Planning. During his time with the Players Association, he held the title of Treasurer for three years and President for four years. Mr. Bridgeman's experience in leading a large and diverse workforce, along with his entrepreneurial vision and director experience make him an excellent member of the Company Board. Mr. Bridgeman is actively involved in the Louisville community. He currently serves on the Board of Directors of Fifth Third Bank; the West End School; the PGA Foundation Board; the Naismith Basketball Hall of Fame; and most recently joined the Meijer Board. He serves as Past Chairman of the Board of Trustees University of Louisville and a past member of the Library Board.

Richard L. Duchossois

92

Director since 2000

Mr. Duchossois is the founder and serves as the Chairman of The Duchossois Group, Inc. (a family-owned company with diversified business interests in companies with leading brands in the residential security, lighting and convenience products markets and the commercial control, automation and digital media markets). Mr. Duchossois also serves as the Chairman of Arlington Park Racecourse, LLC, a subsidiary of the Company. While Mr. Duchossois was originally nominated to serve as a director of the Company pursuant to the stockholder's agreement between the Company and Duchossois Industries, Inc. (as described above), the Company has been and will continue to be well served by Mr. Duchossois' entrepreneurial experience and abilities, his proven leadership capabilities in successfully developing and managing a diverse group of companies that have over 6,000 employees worldwide with operations located in over 30 countries, as well as his horse racing industry experience in which he led the resurrection of Arlington Park Racecourse as a world renowned racetrack. Mr. Duchossois currently holds the following leadership positions with other entities: Director, The Chamberlain Group, Inc.; Director, TCMC, Inc.

Name, Age and

Positions with

Principal Occupation⁽¹⁾

Company

and Certain Directorships⁽²⁾

James F. McDonald

74

Director since 2008

Mr. McDonald is an investor, partner, and founder of a number of private businesses which include construction aggregates, real estate investment partnerships, and livestock operations. From April 30, 2011 to December 31, 2011, Mr. McDonald served as a consultant to Cisco Systems, Inc. (Cisco). From 2006 to April 30, 2011, Mr. McDonald was a Senior Vice President of Cisco (a world leader in networking that provides hardware, software, and service offerings that are used to create Internet solutions that allow individuals, companies, and countries to increase productivity, improve customer satisfaction and strengthen competitive advantage.) From 1993 to 2006, Mr. McDonald served as the Chairman, Chief Executive Officer and President of Scientific-Atlanta, Inc. (a global provider of cable and internet protocol television set-tops, data and voice cable modems, end-to-end video distribution networks, and video systems integration services, which was acquired by Cisco Systems, Inc. in February 2006). Among other exceptional personal and professional attributes, Mr. McDonald's experience as the chief executive or a senior executive of leading global technology companies and as a director of large publicly traded companies in a variety of industries qualify Mr. McDonald to serve on the Board of the Company. Mr. McDonald has held the following leadership positions with other entities: Director, Burlington Resources, Inc. from 1988 to 2006, Director, Mirant Corporation from 2001 to 2006, Director, National Data Corporation and NDCHealth Corporation from 2000 to 2006, Director, Scientific-Atlanta, Inc. from 1993 to 2006. Mr. McDonald is also a former Director of Sprint (now Sprint Nextel Corporation).

R. Alex Rankin

58

Director since 2008

Mr. Rankin is the President of Sterling G. Thompson Co. (a private insurance agency and broker), the President of Upson Downs Farm, Inc. (a thoroughbred breeding and racing operation), the Chairman of the James Graham Brown Foundation (a private, non-profit foundation that fosters the well-being, quality of life, and image of Louisville and Kentucky by actively supporting and funding projects in the fields of civic affairs, economic development, education, and health and general welfare, which since 1954 has awarded over 2,680 grants totaling over \$450 million). Among other exceptional personal and professional attributes, Mr. Rankin's expertise in the areas of finance and risk management, as well as his experience in the Company's core business of thoroughbred horseracing qualify Mr. Rankin as a member of the Board of Directors and the Audit Committee.

(1) Except as noted with respect to Mr. McDonald, there has been no change in principal occupation or employment during the past five years.

(2) Directorships at any time within the last 5 years in companies with a class of securities registered pursuant to Section 12 of the Exchange Act, subject to the requirements of Section 15(d) of the Exchange Act or companies registered under the Investment Company Act of 1940 and, in the case of certain nominees, other directorships or positions considered significant by them.

Emeritus Directors

Emeritus Directors are available for counsel, but do not attend meetings of the Board of Directors and do not vote on matters presented to the Board. The Company's Amended and Restated Bylaws provide that a person shall not be qualified for election as a Director due to age pursuant to any mandatory retirement age requirement adopted by the Company. The Company's Corporate Governance Guidelines provide that the Board will establish and maintain a policy with regard to a mandatory retirement age for non-employee directors. The current policy provides that a person is not qualified to serve as a director unless he or she is less than seventy (70) years of age on the date of election. However, the Board believes that it is important to monitor overall Board performance and suitability and, upon the recommendation of the Nominating and Governance

Committee, the Board may waive the effective date of mandatory retirement. Each director shall become a Director Emeritus upon the expiration of his or her current term following the date on which he or she is no longer qualified for election due to age, provided the effective date of such mandatory retirement has not been waived. The Emeriti Directors are Charles W. Bidwill, Jr., Catesby W. Clay, J. David Grissom, Thomas H. Meeker, and Carl F. Pollard. As of the Annual Meeting, on April 22, 2014, we will have one newly retired Emeritus Director, Darrell R. Wells.

Director Compensation for Fiscal Year Ended December 31, 2013

During 2013, directors received an annual retainer fee of \$35,000; directors who served as committee chairmen of the Compensation Committee and the Nominating and Governance Committee received an additional \$5,000 for a total annual retainer fee of \$40,000; the director who served as committee chairman of the Audit Committee received an additional \$10,000 for a total annual retainer fee of \$45,000. Directors were paid \$1,500 for each meeting of the Board of Directors and \$1,000 for each committee meeting they attended, either in person or by teleconference, and for each special ad hoc meeting in which they participated. Finally, each director received a grant of restricted share units, with an aggregate grant date fair value of \$25,000. Directors who did not reside in Louisville may request reimbursement for their travel expenses. Only non-employee directors receive this compensation.

In 2013, we provided the following annual compensation to our non-employee directors:

Name	Fees earned or paid in cash (\$)	Stock Awards (\$) ⁽³⁾	Total (\$)
Ulysses L. Bridgeman, Jr.	54,250 ⁽¹⁾⁽²⁾	32,328 ⁽¹⁾	86,578
Leonard S. Coleman, Jr.	54,000	25,000	79,000
Craig J. Duchossois	47,000 ⁽²⁾	25,000	72,000
Richard L. Duchossois	46,000	25,000	71,000
Robert L. Fealy	45,000 ⁽²⁾	25,000	70,000
Daniel P. Harrington	58,000 ⁽²⁾	25,000	83,000
G. Watts Humphrey, Jr.	53,000	25,000	78,000
James F. McDonald	48,000 ⁽²⁾	25,000	73,000
R. Alex Rankin	56,000	25,000	81,000
Darrell R. Wells	51,000	25,000	76,000

- (1) Ulysses L. Bridgeman, Jr. was appointed to the Board of Directors on September 14, 2012. The Company elected to pay Mr. Bridgeman a pro-rated annual cash retainer for 2012 after his election at the 2013 Annual Meeting. After his election, Mr. Bridgeman received meeting fees of \$3,000, a pro-rated annual cash retainer of \$8,750 and a pro-rated grant of restricted stock with a value of \$7,328 for his Board service during 2012.
- (2) The Churchill Downs Incorporated 2005 Deferred Compensation Plan allows directors to defer receipt of all or part of their retainer and meeting fees in a deferred share account until after their service on the Board has ended. This account allows the director, in effect, to invest his or her deferred cash compensation in Company Common Stock. Funds in this account are credited as hypothetical shares of Common Stock based on the market price of the stock at the time the compensation would otherwise have been earned. Hypothetical dividends are reinvested in additional shares based on the market price of the stock on the date dividends are paid. All shares in the deferred share accounts are hypothetical and are not issued or transferred until the director ends his or her service on the Board. Upon the end of Board service, the shares are issued or transferred to the director. In 2013, Craig Duchossois, Mr. Fealy, Mr. Harrington and Mr. McDonald deferred all of their 2013 directors fees into a deferred share account under the plan. Mr. Bridgeman deferred 50% of his 2013 directors fees and 50% of his 2012 directors fees that were awarded in 2013 into a deferred share account under the plan. As of December 31, 2013, Mr. Fealy had 8,131 deferred shares, Mr. Craig Duchossois had 8,663 deferred shares, Mr. Richard Duchossois had 2,501 deferred shares, Mr. Harrington had 6,449 deferred shares, Mr. McDonald had 4,872 deferred shares and Mr. Bridgeman had 261 deferred shares under the plan.

- (3) On April 23, 2013, each director, with the exception of Mr. Evans, received a grant of restricted stock units, valued in the amount of \$25,000, calculated based upon the closing price of a share of Common Stock on the date of grant. The restricted stock units vest one year from the date of grant. At the time a director ceases being a director of the Company, the Company will issue one share of Common Stock for each vested restricted stock unit held by such director. As of December 31, 2013, each director, excluding Mr. Evans and Mr. Bridgeman, has received an aggregate total of 2,174 shares, which were granted for board service. Mr. Bridgeman has received an aggregate total of 447 shares.

Corporate Governance

The Board of Directors is responsible for providing effective governance over the Company's affairs. The Company's corporate governance practices are designed to align the interests of the Board and management with those of our shareholders and to promote honesty and integrity throughout the Company.

During the past year, we continued to review our corporate governance policies and practices and compare them to those suggested by various authorities in corporate governance and the practices of other public companies. We have also reviewed guidance and interpretations provided by the Securities and Exchange Commission and NASDAQ.

Copies of the current charter, as approved by our Board, for each of our Audit, Compensation and Nominating and Governance Committees and a copy of our Corporate Governance Guidelines, Code of Conduct for Employees and Code of Ethics for Principal Financial Officers (along with any amendments or waivers related to the Code of Conduct or Code of Ethics) are available on our corporate website, <http://www.churchilldownsincorporated.com> under the Investors heading.

Shareholders may send communications to the Company's Board of Directors addressed to the Board of Directors c/o Churchill Downs Incorporated, 600 N. Hurstbourne Parkway, Ste. 400, Louisville, Kentucky 40222. Any correspondence addressed to the Board of Directors in care of the Company is forwarded to the Board of Directors without review by management.

Board Leadership Structure

On June 16, 2011, the Company's Chief Executive Officer, Robert L. Evans, assumed the combined roles of Chairman of the Board of Directors and Chief Executive Officer. While the Board believes that many factors influence the decision of whether the Chairman of the Board of Directors and Chief Executive Officer positions should be separate or combined and that these factors must be re-evaluated as the needs of the Company evolve, currently the Board of Directors believes that combining such roles is an efficient and effective leadership structure. In addition, the combined roles create a firm link between the Company's management and its Board of Directors, and foster clear accountability, effective decision making and alignment on corporate strategy. To assure effective independent oversight, the Board has adopted a number of governance practices, including: a lead independent director (see below for a description of the lead independent director role), executive sessions of the independent directors after each Board meeting and annual performance evaluations of the Chairman and Chief Executive Officer by the independent directors.

No less frequently than once every two years the Board will appoint a lead director from among its independent directors. On February 26, 2013, G. Watts Humphrey, Jr. was re-appointed as the lead independent director. The lead independent director's authority and responsibilities include: (i) presiding over all meetings of the Board at which the Chairman is not present, including the executive sessions of the independent directors, (ii) serving as liaison between the Chairman and the independent directors, (iii) approving meeting agendas, schedules and information sent to the Board, (iv) the ability to call meetings of the independent directors, and (v) ex officio status on each committee of the Board that the lead independent director is not already a voting member.

Oversight of Company Risk

As part of its responsibility to oversee the management, business and strategy of the Company, the Board of Directors has overall responsibility for risk oversight. While the Board of Directors as a whole performs certain risk oversight functions directly, such as its ongoing review, approval and monitoring of the Company's fundamental business and financial strategies and major corporate actions, the majority of the Board of Directors' risk oversight functions are carried out through the operation of its committees. Each committee oversees risk

management within its assigned areas of responsibility, as described below in the discussion of committee responsibilities. The Audit Committee is primarily responsible for overseeing the Company's risk assessment and risk management practices, as well as its compliance programs. The Compensation Committee's responsibilities include oversight of the risks associated with the Company's compensation policies and practices, as well as its managerial development and succession plans. The Nominating and Governance Committee oversees the risks related to the Company's corporate governance structure and processes.

Share Ownership Guidelines

The Board expects all directors to display confidence in the Company by ownership of a meaningful amount of the Company's stock. As a result, each director is expected to own shares of the Company's stock with a fair market value equal to five (5) times the director's annual retainer. Each director who was serving as such on the date of adoption of the ownership guidelines (March 15, 2007) will have five (5) years from such date to meet this requirement and each director appointed or elected since such date will have five (5) years from the date of appointment or election to the Board to meet this requirement. Initial compliance was measured in March 2012, the five (5) year anniversary date of the adoption of the ownership guidelines (for directors in office on March 15, 2007) or at the five (5) year anniversary date of the director's appointment or election (for new directors). Each director's continuing compliance with the ownership guidelines will be measured in the year he or she stands for re-election and will be considered as one of the criteria for nomination by the Nominating and Governance Committee. Deferred shares acquired by directors under the Churchill Downs Incorporated 2005 Deferred Compensation Plan and restricted stock units granted as director compensation may be included for purposes of measuring compliance with the Company's share ownership guidelines.

Board Meetings and Committees

Six (6) meetings of the Board of Directors were held during the last fiscal year. All directors attended at least seventy-five percent (75%) of the aggregate number of meetings of the Board of Directors and the meetings of the committee(s) on which they served in 2013. The Company encourages its directors to attend the Annual Meeting each year. Ten of our eleven directors attended the Company's Annual Meeting on April 24, 2013.

The Board has determined that all of the directors of the Company are independent directors, as defined under NASDAQ Rule 5605(a)(2), except Robert L. Evans.

As required by the Company's Corporate Governance Guidelines, the Board of Directors currently has four (4) standing committees: the Executive, Audit, Compensation and the Nominating and Governance Committees. No Director Emeritus serves on any Board committee.

The structure of the committees is illustrated in the table below with the number of meetings held in 2013:

Director Name	Board of Directors	Executive Committee	Audit Committee	Compensation Committee	Nominating and Governance Committee
Ulysses L. Bridgeman	ü				ü
Leonard S. Coleman, Jr.	ü		ü	Chairman	
Craig J. Duchossois	ü			ü	
Richard L. Duchossois	ü				ü
Robert L. Evans [©]	Chairman				
Robert L. Fealy	ü	ü			
Daniel P. Harrington	ü		Chairman	ü	
G. Watts Humphrey, Jr. ^ê	Lead Director	Chairman	ê	ê	ê
James F. McDonald	ü			ü	
R. Alex Rankin	ü	ü	ü		Chairman
Darrell R. Wells	ü		ü	ü	
Number of meetings in 2013	6	0	4	3	2

ü = Member

© = Chairman of the Board

ê = Mr. Humphrey serves as lead independent director, and is an ex-officio, non-voting member (Audit, Compensation, and Nominating and Governance Committees).

Executive Committee

The Executive Committee is authorized, subject to certain limitations set forth in the Company's Amended and Restated Bylaws, to exercise the authority of the Board of Directors between Board meetings. The members of the Executive Committee are G. Watts Humphrey, Jr., who serves as Chairman, Robert L. Fealy, and R. Alex Rankin. The Executive Committee does not meet on a regular basis, but instead meets as and when needed.

The Executive Committee did not meet during the last fiscal year.

Audit Committee

The primary purposes of the Audit Committee are to assist the Board of Directors in fulfilling its responsibility in monitoring management's conduct of the Company's financial reporting process and overseeing the Company's risk assessment and risk management practices. Under its charter, the Audit Committee is generally responsible for monitoring the integrity of the financial reporting process, systems of internal controls and financial statements and other financial reports provided by the Company to any governmental or regulatory body, the public or other users thereof, as well as overseeing the processes by which management assesses the Company's exposure to risk and evaluating the guidelines and policies governing the Company's monitoring, control and minimization of such exposures.

The Audit Committee's responsibilities are as follows:

To monitor the performance of the Company's internal audit function;

To appoint, compensate, retain and oversee the Company's independent registered public accounting firm employed by the Company for the purpose of preparing or issuing audit opinions on the Company's financial statements and its internal control over financial reporting;

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To monitor the Company's compliance with legal and regulatory requirements as well as the Company's Code of Conduct and Compliance Policies; and

To inquire of management, including its internal auditor, and the Company's independent auditors regarding significant risks or exposures, including those related to fraudulent activities, facing the Company; to assess the steps management has taken or proposes to take to minimize such risks to the Company; and to periodically review compliance with such steps.

In discharging its oversight role, to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and to retain outside counsel, auditors or other experts for this purpose.

The officers of the Company responsible for risk assessment and risk management functions report directly to the Audit Committee on a periodic basis, such as the Company's internal auditor presenting its audit plan annually, the Company's chief compliance officer presenting updates on its enterprise risk management program, and on a case by case basis as necessary.

The members of the Audit Committee are Daniel P. Harrington, who serves as Chairman, Leonard S. Coleman, Jr., R. Alex Rankin, and Darrell R. Wells. The Company's Board of Directors has determined that all members of the Company's Audit Committee are independent as defined under NASDAQ Rule 5605(a)(2) and Rule 10A-3(b)(1) of the Securities and Exchange Commission. As of the Annual Meeting, Mr. Wells will no longer serve on the Audit Committee as he will have reached the Company's mandatory retirement age of 70. Mr. Wells' replacement is Leonard S. Coleman, Jr.

Four (4) meetings of the Audit Committee were held during the last fiscal year. The Audit Committee reviews the adequacy of its charter on an annual basis.

The Board of Directors has determined that Daniel P. Harrington, who is independent as defined under NASDAQ Rule 5605(a)(2) and rules promulgated by the Securities and Exchange Commission, is an audit committee financial expert as defined by regulations promulgated by the Securities and Exchange Commission.

Compensation Committee

Responsibilities of the Compensation Committee

The Compensation Committee of the Board of Directors operates under a written charter and is comprised entirely of directors meeting the independence requirements of NASDAQ and Rule 10C-1 of the Securities and Exchange Commission. The Board established the Compensation Committee to discharge the Board's responsibilities relating to compensation of the Company's chief executive officer and each of the Company's other executive officers. The Compensation Committee has overall responsibility for decisions relating to all compensation plans, policies and perquisites as they affect the chief executive officer (CEO) and other executive officers.

During 2013, the Compensation Committee was composed of four (4) independent directors, as defined by the NASDAQ listing standards. Currently the members of the Compensation Committee are Leonard S. Coleman, Jr., who serves as Chairman, Craig J. Duchossois, Daniel P. Harrington, James F. McDonald, and Darrell R. Wells. The Committee has created a special Subcommittee comprised of three Non-Employee Directors for the purposes of approving any stock grants or other stock related transactions to officers or directors of the Company, as required under Rule 16b-3. In addition, this Subcommittee is comprised only of outside directors as defined by Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) and is responsible for approving all performance standards for officers for any pay program intended to qualify as performance based compensation under this section of the Code. The members of this special Subcommittee are Mr. Coleman, Mr. McDonald, and Mr. Wells. As of the Annual Meeting, the special Subcommittee will be comprised of the following directors: Leonard S. Coleman, Jr., James F. McDonald, and Daniel P. Harrington.

Three (3) meetings of the Compensation Committee were held during the last fiscal year. Members of management attended each meeting. The agenda for each meeting was determined by the Chairman of the Compensation Committee with management's input prior to each meeting.

The Compensation Committee's responsibilities are as follows:

Oversee the development and implementation of the Company's compensation policies and programs for executive officers, including the CEO.

Establish the annual goals and objectives relevant to the compensation of the CEO and the executive officers and to present such to the Board annually.

Evaluate the performance of the CEO and the executive officers in light of the agreed-upon goals and objectives and to determine and approve the compensation level of the CEO, including the balance of the components of total compensation, based on such evaluation and to present its report to the Board annually.

To develop guidelines for the compensation and performance of the Company's executive officers and to determine and approve the compensation of the Company's executive officers, including the balance of the components of total compensation.

To establish appropriate performance targets, participations and levels of awards with respect to the Company's incentive compensation plans.

To administer the Company's equity-based compensation plans, including the establishment of criteria for the granting of stock-based awards and the review and approval of such grants in accordance with the criteria.

To establish and periodically review company policies relating to senior management perquisites and other non-cash benefits.

To review periodically the operation of the Company's overall compensation program for key employees and evaluate its effectiveness in promoting shareholder value and company objectives.

To review the results of any advisory shareholder votes on executive compensation and consider whether to recommend adjustments to the Company's compensation policies and programs taking into account such results.

To consider, at least annually, whether risks arising from the Company's compensation policies and practices for all employees, including non-executive officers, are reasonably likely to have a material adverse effect on the Company, including whether the Company's incentive compensation arrangements encourage excessive or inappropriate risk-taking.

To approve any compensation clawback policy required by law or otherwise adopted by the Company.

To oversee regulatory compliance with respect to matters relating to executive officer compensation.

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To approve plans for managerial development and succession within the Company and to present such plans to the Board annually.

To review, assess and recommend to the Board appropriate compensation for outside directors.

To produce the report on executive compensation to be included in the Company's proxy statement for the annual meeting of shareholders.

To review and discuss with management the Compensation Disclosure and Analysis (CD&A) and, based on such discussion, make a recommendation to the Board as to whether or not the CD&A shall be included in the proxy statement.

To review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

To conduct an annual performance evaluation of the Committee.

The Compensation Committee's charter reflects these responsibilities, and the Compensation Committee and the Board periodically review and revise the charter.

Compensation Committee Interlocks and Insider Participation

None of the directors who served on the Compensation Committee at any time during the last fiscal year were officers of the Company or were former officers of the Company. None of the members who served on the Committee at any time during fiscal 2013 had any relationship with the Company requiring disclosure under Item 404 of Regulation S-K. Finally, no executive officer of the Company serves, or in the past fiscal year has served, as a member of the compensation committee (or other board committee performing equivalent functions) of any entity that has one or more of its executive officers serving on the Committee.

Compensation Risk Assessment

The Committee performed an assessment of whether risks arising from the Company's compensation policies and practices for all employees during 2013, including non-executive officers, are reasonably likely to have a material adverse effect on the Company. The Committee determined that the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company.

Nominating and Governance Committee

The Company's Nominating and Governance Committee operates under a written charter and is responsible for establishing the criteria for and reviewing the effectiveness of the Company's Board of Directors. In addition, the Nominating and Governance Committee provides oversight with regard to the Company's programs for dealing with business ethics and other governance issues.

Pursuant to the Company's Corporate Governance Guidelines and its Policy on Board Composition, the Nominating and Governance Committee determines criteria regarding personal qualifications needed for Board membership and the Committee considers, reviews qualifications and recommends qualified candidates for Board membership. In doing so, the Nominating and Governance Committee reviews the composition of the Board to identify skill sets and qualifications which are represented in order to determine which ones are needed. In addition, the Nominating and Governance Committee reviews the Company's strategic plan to determine its needs with regard to Board composition. While the Company does not have a formal policy on diversity for members of the Board of Directors, the Company's Corporate Governance Guidelines and its Policy on Board Composition specifically provide that diversity of race and gender, as well as general diversity of backgrounds and experience represented on the Board of Directors are factors to consider in evaluating potential directors. The Nominating and Governance Committee sometimes employs an outside consultant to identify nominees with the skill sets, experience and backgrounds that suit the Company's needs.

A candidate for the Company's Board of Directors should possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of the Company's various constituencies. In considering a candidate for nomination as a member of the Board, the Nominating and Governance Committee will consider criteria such as independence; occupational background, including principal occupation (i.e., chief executive officer, attorney, accountant, investment banker, or other pertinent occupation); level and type of business experience (i.e., financial, lending, investment, media, racing industry, technology, etc.); diversity in race and gender; number of boards on which the individual serves; and the general diversity of backgrounds and experience represented on the Board. The Nominating and Governance Committee

periodically reviews the Company's Corporate Governance Guidelines and its Policy on Board Composition and recommends changes to the Board. It also evaluates the performance of the Board as a whole and provides feedback to the Board on how the directors, the committees and the Board are functioning. Finally it evaluates Board of Director practices at the Company and other well-managed companies on an annual basis and recommends appropriate changes to the Board and/or its practices.

The Nominating and Governance Committee receives and considers issues raised by shareholders or other stakeholders in the Company and recommends appropriate responses to the Board. The Nominating and Governance Committee will consider recommendations for director candidates submitted by shareholders. Such questions, comments or recommendations should be submitted in writing to the Nominating and Governance Committee in care of the Office of the Secretary at 600 N. Hurstbourne Parkway, Ste. 400, Louisville, Kentucky 40222. The Nominating and Governance Committee, in having adopted criteria to be considered for membership on its Board, considers such candidates applying such criteria and follows the recommendation process noted above. Recommendations by shareholders that are made in accordance with these procedures will receive the same consideration as recommendations from other sources.

The members of the Nominating and Governance Committee, each of whom is independent as defined by the NASDAQ listing standards, are R. Alex Rankin, who serves as Chairman, Ulysses L. Bridgeman, and Richard L. Duchossois.

Two (2) meetings of the Nominating and Governance Committee were held during the last fiscal year.

Proposal to Approve the Amendment to the

Churchill Downs Incorporated

2007 Omnibus Stock Incentive Plan

(Proposal No. 2)

Overview

The Board of Directors adopted the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan (the "2007 Plan") on March 15, 2007. On February 25, 2014, upon recommendation of the Compensation Committee, the Board of Directors approved the amendment of the 2007 Plan described in this proposal, subject to shareholder approval. If approved by the stockholders, the amendment will increase, by 1.8 million shares, the number of shares of the Company's Common Stock available for issuance under the 2007 Plan. On February 28, 2014, the closing share price of the Company's Common Stock, as reported on NASDAQ, was \$93.00.

The 2007 Plan is the only equity incentive compensation plan under which the Company is granting equity incentive awards, such as stock awards, to directors, officers and other employees. Approximately 13,478 shares remained available for issuance under the 2007 Plan as of February 25, 2014. This remaining amount is insufficient to meet the Company's equity compensation requirements during 2014 and beyond. We estimate that the additional 1.8 million shares will be sufficient to meet our needs for the next three year period.

Why You Should Vote For the 2007 Plan Amendment:

The Board of Directors believes that the 2007 Plan is important to the long-term success of the Company. The purpose of the 2007 Plan is to attract, motivate and retain highly qualified officers, members of the Board who are not employees ("Nonemployee Directors") and key employees. The 2007 Plan is also intended to provide compensation that will be tax deductible by the Company without regard to the limitations of Section 162(m) of the Internal Revenue Code, assuming certain regulatory requirements are satisfied.

The 2007 Plan is administered by the Compensation Committee of the Board of Directors. Awards made to Nonemployee Directors will be approved by the Board. Awards made to the Company's Chairman and Chief Executive Officer will be approved by the Compensation Committee. The 2007 Plan provides the Compensation Committee flexibility to design compensatory awards that are responsive to the Company's needs. Subject to the terms of the 2007 Plan, the Compensation Committee has the discretion to determine the terms of each award. The Committee may delegate to one or more officers of the Company the authority to grant awards to participants who are not directors or executive officers of the Company. The Committee must fix the total number of shares that may be subject to grants made under this delegation.

The Company believes its usage of the 2007 Plan illustrates its commitment to best practices in equity compensation, prudent use of these limited resources and the promotion of a strong alignment with shareholder interests.

The Company manages its use of equity incentive awards carefully and has maintained a reasonable run rate. The Compensation Committee carefully monitors the Company's total dilution, run rate and equity expense to ensure that it maximizes shareholder value and exercises prudence by granting only such number of equity awards as deemed necessary to attract, reward and retain employees. Run rate, a means of measuring annual stock dilution, shows how rapidly a company is deploying its shares reserved for issuance under its equity compensation plans. Run rate is defined as the number of shares subject to equity awards issued in a fiscal year as a percentage of the Company's weighted average shares outstanding. The higher the run rate, the greater the dilution. In the last three fiscal years, the Company's average annual run rate has been 1.8%, or 4.6% on an option equivalent basis (treating restricted shares as if they were granted as stock options and including all performance-based shares on the date of grant), which is higher than the median run rate of other companies of similar size in the same Global Industry Classification Standard ("GICS") industry group (Hotels, Restaurants and Leisure). However, it should be noted that the circumstances increasing the run rate resulted from the

implementation of overlapping pay programs during 2013. Specifically, in 2013, the Company both issued the final awards under its prior 2008-2012 long-term incentive plan (2008-2012 LTIP), by certifying certain performance goals necessary to award the final two phases of that plan, and awarded new grants of restricted stock under a new multi-year long-term incentive program. Excluding the New Company LTIP performance-based awards, our dilution for the past three (3) years would have been only 1.2% on average, or 3.1% on an option equivalent basis.

The Company's equity overhang is substantially lower compared to similar companies. Overhang is an analysis of potential dilution to shareholders from the equity being transferred to employees via equity incentive plans. Overhang is defined as (i) stock awards and option awards outstanding and (ii) shares remaining available for grant as a percentage of the Company's weighted average shares outstanding. As of December 31, 2013, the Company's overhang was approximately 5.1% which is significantly below the median overhang of other companies of similar size in the same GICS industry group (Hotels, Restaurants and Leisure) of 13%. Upon approval of the amendment to the 2007 Plan, the Company's overhang will be 15.5%, which is still lower than such comparable companies as described above.

The amendment of the 2007 Plan will not be effective unless and until approved by shareholders. Participation and the types of awards under the 2007 Plan are subject to the discretion of the Compensation Committee and, as a result, the benefits or amounts that will be received by any participant or groups of participants if the amendment of the 2007 Plan is approved are not currently determinable. Based on its historic compensation practices, the Company expects that a range of 40 to 50 persons annually will receive awards under the 2007 Plan.

Summary Description of the 2007 Plan

A description of the provisions of the 2007 Plan is set forth in question and answer format below.

Who may participate?

Employees of the Company and its subsidiaries and Nonemployee Directors may be selected by the Compensation Committee to receive awards under the 2007 Plan. As of March 24, 2014, approximately 4,300 employees and 10 non-employee directors are eligible to participate in the 2007 Plan.

Are there limits on grants to individual participants or other grant limits?

Yes. No participant may receive awards during any one calendar year representing more than 300,000 shares of Common Stock or more than 7,500,000 performance units (equivalent to \$7,500,000). A performance unit is defined in the plan document as a bookkeeping entry that records a unit equivalent to \$1.00 awarded pursuant to the plan. If the amendment is approved, in no event will the number of shares of Common Stock issued under the plan upon the exercise of incentive stock options exceed 4,430,000 shares. Stock awards other than stock options will be counted against the maximum number of shares to be issued under the 2007 Plan in a 2-to-1 ratio. These limits are subject to adjustments by the Compensation Committee as provided in the 2007 Plan for stock splits, stock dividends, recapitalizations and other similar transactions or events.

How are shares counted against the plan?

The 2007 Plan provides that the number of shares of Common Stock as to which awards may be granted is 4,430,000 shares (Maximum Share Limit). Under the terms of the 2007 Plan, no more than 4,430,000 shares may be used for Options, Stock Appreciation Rights, Restricted Shares, Restricted Share Units, Performance Shares or Performance Units. Each share issued or transferred pursuant to an Award under the 2007 Plan, other than an Option, shall reduce the number of shares available for issuance under the 2007 Plan by 2 shares. If an Award expires or is terminated, cancelled or forfeited, the shares of Common Stock associated with the expired, terminated, cancelled or forfeited Award will again be available for awards under the 2007 Plan. Furthermore, in the case of an Award other than an Option that expires, terminates, is cancelled or is forfeited, the Maximum

Share Limit shall be increased by two shares of Common Stock, up to the full value of the Award for each such Award that is not an Option. In the case of an Option that expires, terminates, is cancelled or is forfeited, the Maximum Share Limit shall be increased by one share of Common Stock. However, the following shares of Common Stock will not become available again for issuance under the 2007 Plan:

Shares of Common Stock that are tendered by a participant or withheld as full or partial payment of minimum withholding taxes or as payment for the exercise price of an Award; and

Shares of Common Stock reserved for issuance upon grant of an SAR, to the extent the number of reserved shares of Common Stock exceeds the number of shares of Common Stock actually issued upon exercise or settlement of such SAR.

If cash is issued in lieu of shares of Common Stock pursuant to an award, the shares will not become available for issuance under the Plan.

May options be re-priced without shareholder approval?

Outstanding Options awarded under the 2007 Plan, may not be re-priced, directly or indirectly, without the approval of the shareholders of the Company.

What types of awards may be granted?

Awards under the 2007 Plan may be in the form of stock options, stock appreciation rights, restricted stock, restricted share units, performance shares or performance units.

Upon what terms may options be awarded?

Stock options entitle the optionee to purchase shares of Common Stock at a price equal to or greater than the fair market value on the date of grant. Options may be either incentive stock options or nonqualified stock options, provided that only employees may be granted incentive stock options. The option may specify that the option price is payable (i) in cash, (ii) by the transfer to the Company of unrestricted stock, (iii) with any other legal consideration the Compensation Committee may deem appropriate or (iv) any combination of the foregoing. No stock option may be exercised more than ten (10) years from the date of grant. Each grant may specify a period of continuous employment or service with the Company or any subsidiary that is necessary before the stock option or any portion thereof will become exercisable and may provide for the earlier exercise of the option in the event of a change in control of the Company or similar event.

Upon what terms may stock appreciation rights be granted?

Stock appreciation rights represent the right to receive an amount, determined by the Compensation Committee and expressed as a percentage not exceeding 100%, of the difference between the base price established for such rights and the fair market value of the Company's Common Stock on the date the rights are exercised. The base price must not be less than the fair market value of the Common Stock on the date the right is granted. The grant may specify that the amount payable upon exercise of the stock appreciation right may be paid by the Company (i) in cash, (ii) in shares of the Company's Common Stock or (iii) any combination of the foregoing. Any grant may specify a waiting period or periods before the stock appreciation rights may become exercisable and permissible dates or periods on or during which the stock appreciation rights shall be exercisable, and may specify that the stock appreciation rights may be exercised only in the event of a change in control of the Company or similar event. The Committee may grant tandem stock appreciation awards in connection with an option or free-standing stock appreciation awards unrelated to an option. No stock appreciation right may be exercised more than ten (10) years from the date of grant and each grant of a free-standing stock appreciation right must specify the period of continuous employment or service that is necessary before the free-standing stock appreciation right or installments thereof may be exercisable.

Upon what terms may restricted stock be awarded?

An award of restricted stock involves the immediate transfer by the Company to a participant of ownership of a specific number of shares of Common Stock in return for the performance of services. The participant is entitled immediately to voting, dividend and other ownership rights in such shares, subject to the discretion of the Compensation Committee to not include any of such rights during the restriction period. The transfer may be made without additional consideration from the participant. The Committee may specify performance objectives that must be achieved for the restrictions to lapse. Restricted stock must be subject to a substantial risk of forfeiture within the meaning of Code Section 83 for a period to be determined by the Committee on the grant date and any grant or sale may provide for the earlier termination of such risk of forfeiture in the event of a change of control of the Company or similar event.

Upon what terms may restricted share units be granted?

An award of restricted share units granted under the 2007 Plan represents the right to receive a specific number of shares at the end of a specified deferral period. Any grant of restricted share units may be further conditioned upon the attainment of performance objectives. The grant may provide for the early termination of the deferral period in the event of a change in control of the Company or similar event. During the deferral period, the participant is not entitled to vote or receive dividends on the shares subject to the award, but the Compensation Committee may provide for the payment of dividend equivalents on a current or deferred basis. The grant of restricted share units may be made without any consideration from the participant other than the performance of future services.

Upon what terms may performance shares and units be granted?

A performance share is the equivalent of one share of Common Stock, and a performance unit is the equivalent of \$1.00. Each grant will specify one or more performance objectives to be met within a specified period (the performance period), which may be subject to earlier termination in the event of a change in control of the Company or a similar event. If by the end of the performance period the participant has achieved the specified performance objectives, the participant will be deemed to have fully earned the performance shares or performance units. If the participant has not achieved the level of acceptable achievement, the participant may be deemed to have partly earned the performance shares or performance units in accordance with a predetermined formula. To the extent earned, the performance shares or performance units will be paid to the participant at the time and in the manner determined by the Compensation Committee in cash, shares of the Company's Common Stock or any combination thereof.

What are the performance objectives?

The 2007 Plan provides that grants of performance shares, performance units or, when determined by the Compensation Committee, options, restricted share units, restricted stock or other stock-based awards may be made based upon performance objectives. Performance objectives applicable to awards that are intended to be exempt from the limitations of Code Section 162(m) are limited to specified levels of or increases in the Company's or subsidiary's return on equity, earnings from continuing operations, earnings from continuing operations before interest and taxes, earnings per share from continuing operations before interest, taxes, depreciation and amortization (EBITDA), net earnings per share, diluted earnings per share, total earnings, earnings growth, return on capital, cost of capital, return on assets, return on investment, return on equity, net customer sales, volume sales, sales growth, gross profit, gross margin return on investment, increase in the fair market value of the Company's Common Stock, share price (including but not limited to, growth measures and total shareholder return), operating profit, operating margin, net operating profit after taxes, net earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on investment (which equals net cash flow divided by total capital), total return to shareholders, market share, earnings measures/ratios, economic value added (EVA), asset growth, internal rate of return, increase in net present value or expense targets, Employer of Choice or similar survey results, customer satisfaction surveys and

productivity. Performance criteria may be measured on an absolute or relative basis. Relative performance may be measured by a group of peer companies or by a financial market index. If the Compensation Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the performance objectives unsuitable, the Committee may modify the performance objectives or the related minimum acceptable level of achievement, in whole or in part, as the Committee deems appropriate and equitable.

What is the maximum amount payable upon attainment of the specified performance-based objectives?

No individual may receive awards representing more than 300,000 shares of Common Stock in any one year. In addition, the maximum number of performance units that may be granted to an individual in any one year is 7,500,000. A performance unit is defined in the plan document as a bookkeeping entry that records a unit equivalent to \$1.00 awarded pursuant to the plan.

Are awards made under the plan transferable?

Except as provided below, no award under the 2007 Plan may be transferred by a participant other than by will or the laws of descent and distribution, and stock options and stock appreciation rights may be exercised during the participant's lifetime only by the participant or, in the event of the participant's legal incapacity, the guardian or legal representative acting on behalf of the participant. The Committee may expressly provide in an award agreement (other than an incentive stock option) that the participant may transfer the award to a spouse or lineal descendant, a trust for the exclusive benefit of such family members, a partnership or other entity in which all the beneficial owners are such family members, or any other entity affiliated with the participant that the Committee may approve.

When does the plan terminate?

The 2007 Plan will terminate on the tenth anniversary of the date it was first approved by shareholders, and no award will be granted under the 2007 Plan after that date.

How can the plan be amended?

The 2007 Plan may be amended by the Board of Directors, but without further approval by the shareholders of the Company, no such amendment may increase the limitations set forth in the 2007 Plan on the number of shares that may be issued under the 2007 Plan or any of the limitations on awards to individual participants. The Board may condition any amendment on the approval of the shareholders if such approval is necessary or deemed advisable with respect to the applicable listing or other requirements of a national securities exchange or other applicable laws, policies or regulations.

What are the tax consequences of the 2007 plan?

The following is a brief summary of certain of the federal income tax consequences of certain transactions under the 2007 Plan. This summary is not intended to be exhaustive and does not describe state or local tax consequences.

In general, an optionee will not recognize income at the time a nonqualified stock option is granted. At the time of exercise, the optionee will recognize ordinary income in an amount equal to the difference between the option price paid for the shares and the fair market value of the shares on the date of exercise. At the time of sale of shares acquired pursuant to the exercise of a nonqualified stock option, any appreciation (or depreciation) in the value of the shares after the date of exercise generally will be treated as capital gain (or loss).

An optionee generally will not recognize income upon the grant or exercise of an incentive stock option. If shares issued to an optionee upon the exercise of an incentive stock option are not disposed of in a disqualifying disposition within two years after the date of grant or within one year after the transfer of the shares to the

optionee, then upon the sale of the shares any amount realized in excess of the option price generally will be taxed to the optionee as long-term capital gain and any loss sustained will be a long-term capital loss. If shares acquired upon the exercise of an incentive stock option are disposed of prior to the expiration of either holding period described above, the optionee generally will recognize ordinary income in the year of disposition in an amount equal to any excess of the fair market value of the shares at the time of exercise (or, if less, the amount realized on the disposition of the shares) over the option price paid for the shares. Any further gain (or loss) realized by the optionee generally will be taxed as short-term or long-term capital gain (or loss) depending on the holding period.

Subject to certain exceptions for death or disability, if an optionee exercises an incentive stock option more than three months after termination of employment, the exercise of the option will be taxed as the exercise of a nonqualified stock option. In addition, if an optionee is subject to federal alternative minimum tax, the exercise of an incentive stock option will be treated essentially the same as a nonqualified stock option for purposes of the alternative minimum tax.

A recipient of restricted stock generally will be subject to taxation at ordinary income rates on the fair market value of the restricted stock (reduced by any amount paid by the recipient) at such time as the shares are no longer subject to a substantial risk of forfeiture or restrictions on transfer for purposes of Code Section 83. However, a recipient who so elects under Code Section 83(b) within thirty days of the date of grant of the restricted stock will recognize ordinary income on the date of grant of the shares equal to the excess of the fair market value of the restricted stock (determined without regard to the risk of forfeiture or restrictions on transfer) over any purchase price paid for the shares. If a Section 83(b) election has not been made, any dividends received with respect to restricted stock that are subject at that time to a substantial risk of forfeiture or restrictions on transfer generally will be treated as compensation that is taxable as ordinary income to the recipient.

A recipient of restricted share units generally will not recognize income until shares are transferred to the recipient at the end of the deferral period and are no longer subject to a substantial risk of forfeiture or restrictions on transfer. At that time, the participant will recognize ordinary income equal to the fair market value of the shares, reduced by any amount paid by the recipient.

A participant generally will not recognize income upon the grant of performance shares or performance units. Upon payment, with respect to performance shares or performance units, the participant generally will recognize as ordinary income an amount equal to the amount of cash received and the fair market value of any unrestricted stock received.

To the extent that a participant recognizes ordinary income in the circumstances described above, the Company or subsidiary for which the participant performs services will be entitled to a corresponding deduction, provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an excess parachute payment within the meaning of Code Section 280G and is not disallowed by the \$1,000,000 limitation on certain executive compensation under Code Section 162(m).

Awards of restricted share units, performance shares and performance units under the 2007 Plan may, in some cases, result in the deferral of compensation that is subject to the requirements of Code Section 409A. Generally, to the extent that deferrals of these awards fail to meet certain requirements under Code Section 409A, such awards will be subject to immediate taxation and additional taxes in the year they vest.

Where can I get a copy of the plan?

This summary is not a complete description of all provisions of the 2007 Plan. A copy of the 2007 Plan as proposed to be amended is attached hereto as *Exhibit A*.

What is required to approve this proposal?

In order for this proposal to be adopted by the shareholders, at least a majority of the votes cast at the Annual Meeting in person or by proxy by the shareholders entitled to vote on the matter must be voted in its favor.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE APPROVAL OF THE AMENDMENT OF THE 2007 OMNIBUS STOCK INCENTIVE PLAN TO INCREASE THE SHARES AVAILABLE FOR ISSUANCE UNDER THE PLAN BY 1.8 MILLION SHARES.

UNLESS OTHERWISE INSTRUCTED, IT IS THE INTENTION OF THE PERSONS NAMED IN THE PROXY TO VOTE THE SHARES REPRESENTED THEREBY FOR THE PROPOSAL TO APPROVE THE 2007 OMNIBUS STOCK INCENTIVE PLAN.

**Proposal to Ratify the Appointment of PricewaterhouseCoopers LLP as the
Company's Independent Registered Public Accounting Firm for 2014**

(Proposal No. 3)

On February 25, 2014, the Board of Directors, on recommendation from the Audit Committee, selected PricewaterhouseCoopers LLP (PwC) to serve as the Company's independent registered public accounting firm for the year ending December 31, 2014. PwC has served as the Company's independent registered public accounting firm since the Company's 1990 fiscal year.

Although the Company's Amended and Restated Bylaws do not require that the Company's shareholders ratify the appointment of PwC as the Company's independent registered public accounting firm, the Board of Directors is submitting the appointment of PwC to the Company's shareholders for ratification as a matter of good corporate governance. Approval of this proposal requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting. If the appointment is not ratified, the Company's Audit Committee will consider whether it is appropriate to select another independent registered public accounting firm. Even if the appointment is ratified, the Company's Audit Committee, in its sole discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

Representatives of PwC are expected to be present at the Annual Meeting and will be available to respond to appropriate questions and will have the opportunity to make a statement if they desire to do so.

THE BOARD OF DIRECTORS AND THE AUDIT COMMITTEE RECOMMEND THAT THE SHAREHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2014.

UNLESS OTHERWISE INSTRUCTED, IT IS THE INTENTION OF THE PERSONS NAMED IN THE PROXY TO VOTE THE SHARES REPRESENTED THEREBY IN FAVOR OF THE PROPOSAL TO RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2014.

Independent Public Accountants

Audit Fees

The audit fees incurred by the Company for services provided by PwC (i) for the year ended December 31, 2012, were \$938,000 and (ii) for the year ended December 31, 2013, were \$1,125,000. Audit fees include services related to the audit of the Company's consolidated financial statements, the audit of the effectiveness of internal control over financial reporting, involvement with registration statement filings, statutory audits and consultations related to miscellaneous Securities and Exchange Commission and financial reporting matters.

Audit-Related Fees

During 2012 and 2013, the Company incurred \$153,342 and \$0, in fees, respectively, for assurance and related services performed by PwC that were reasonably related to the performance of the audit or review of the Company's financial statements that are not reported in the preceding section.

Tax Fees

Tax fees incurred by the Company for services provided by PwC (i) in 2012, were \$44,800, and (ii) in 2013, were \$105,000. Tax fees include services related to tax return preparation for a related entity, tax consultation and tax advice.

All Other Fees

All other fees incurred by the Company for services provided by PwC relate to the use of Comperio, PwC's accounting research software, which amounted to \$1,500 in 2012 and \$1,800 in 2013, and \$25,000, in 2012, related to agreed-upon procedures involving Velocity, a wholly-owned subsidiary of Churchill Downs Incorporated. The Audit Committee has considered whether the provision of non-audit services to the Company is compatible with maintaining PwC's independence.

The Audit Committee has adopted a policy of evaluating pre-approval of services provided by the independent auditors on a case-by-case basis. The Audit Committee pre-approved all audit and permissible non-audit services provided by the independent auditors in 2013.

Advisory Vote on Executive Compensation

(Proposal No. 4)

Pursuant to Section 14A of the Securities Exchange Act of 1934, the Company's shareholders are entitled to a vote to approve, on an advisory and non-binding basis, the compensation of the Company's named executive officers (NEOs) as disclosed in this proxy statement in accordance with SEC rules. In accordance with the preference expressed by shareholders in the 2011 advisory vote regarding the frequency of voting on the Company's executive compensation program, the Company is holding such advisory votes on an annual basis.

The Company has a pay-for-performance philosophy that forms the foundation of all decisions regarding compensation of the Company's NEOs. This compensation philosophy, and the program structure approved by the Compensation Committee, is central to Company's ability to attract, motivate and retain individuals who can achieve superior financial results while also aligning the interests of the executives with the interests of shareholders over the long-term. This approach has resulted in the Company's ability to attract and retain the executive talent necessary to guide the Company successfully during a period of growth and transformation. Please refer to Compensation Discussion and Analysis Executive Summary for an overview of the compensation of the Company's NEOs.

This vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the policies and practices described in this proxy statement. At the Annual Meeting, shareholders will be asked to approve the compensation of the Company's NEOs by voting FOR the following resolution:

RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure in this proxy statement.

This vote is advisory and therefore not binding on the Company. The Board of Directors and Compensation Committee value the opinions of the Company's shareholders. Should there be a significant vote against the named executive officer compensation as disclosed in this proxy statement, the Board will consider those shareholders' concerns and will evaluate whether any actions are necessary to address those concerns.

The affirmative vote of a majority of the shares of the Company's Common Stock present in person or represented by proxy and entitled to vote on the proposal at the Annual Meeting is required for advisory approval of this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE ADVISORY RESOLUTION RELATING TO THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT.

Compensation Discussion and Analysis

Executive Summary

The goal of the Company's compensation programs is and has been to attract and retain the talented executives and employees it needs to achieve its strategic plans and deliver financial returns to shareholders over both the short term and long term. To do that, the Company needs to compensate its employees and executive team in a way that encourages and rewards high performance.

Churchill Downs Incorporated, since 2007, has developed into one of the most diversified gaming companies in the United States. Driving the strategy during this timeframe, have been our Chairman & CEO, Robert L. Evans, President & COO, William C. Carstanjen, and Executive Vice President & CFO, William E. Mudd.

Table 1: Change in the Company's Adjusted EBITDA and Net Revenues since 2008 (in millions).

In 2013, the Company exhibited strong financial performance including \$176.2⁽¹⁾ million in Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA) (defined as earnings

- (1) The Company uses Adjusted EBITDA, a non-GAAP measure, as a key performance measure of results of operations for purposes of evaluating performance internally. Adjusted EBITDA is a supplemental measure of the Company's performance that is not required by, or presented in accordance with, generally accepted accounting principles (GAAP). Our 2014 Annual Report (the 2014 Annual Report), filed on Form 10-K, on page 60, gives a GAAP reconciliation for Adjusted EBITDA to net earnings, which were \$54.9 million for year-end December 31, 2013. Net earnings, as reflected in our 2014 Annual Report, includes \$21.5 million in share-based compensation expenses attributable to the Company's 2013 long-term incentive program, \$3.6 million in re-opening costs associated with the Company's investment in MVG, \$0.2 million due to financing cost associated with MVG, \$61.8 million in depreciation and amortization, \$6.1 million in interest expense, \$0.4 million in insurance recoveries, net of losses, \$4.5 million in HRE Trust Fund proceeds, \$2.5 million in other charges and recoveries, and \$30.5 million for income tax provisions, as these amounts are excluded from stated Adjusted EBITDA as disclosed above.

before interest, taxes, depreciation, amortization, insurance recoveries net of losses, Horse Racing Equity Trust Fund (HRE Trust Fund) proceeds, share based compensation expenses, pre-opening expenses, the impairment of assets and other charges or recoveries, and the operating income or loss of our 50% joint venture in Miami Valley Gaming (MVG). The Company's continued diversification of revenues and its operational discipline enabled it to achieve these results during a time of ongoing financial challenges for the Company's historical core business of thoroughbred horseracing and contributed to significant benefits being realized by the Company's shareholders. The Company increased its dividend in 2013 by 21%. In addition, during 2013, the Company's stock price increased from \$66.45, on December 31, 2012, to \$89.65, on December 31, 2013, for a return of 35% for shareholders (excluding dividends). Since 2008, under its current leadership, the Company's market capitalization has more than doubled and our stock price has increased from \$40.42 (as of 12/31/2008) to \$89.65 (as of 12/31/2013), representing a total return of 129% for shareholders (including dividends). The Company achieved these milestones by attracting and retaining talented executives and creating a compensation strategy that pays for performance when outcomes meet or exceed strategic and financial goals.

Table 2: Increase in Company's Common Stock Price and Dividends since 2008 (as of year-end).

Under the Company's total compensation structure, the Committee believes that the payouts made with regards to 2013 reflect an appropriate level of compensation given the results delivered to shareholders over the last year.

This Compensation Discussion and Analysis describes the Company's executive compensation policies and programs and how they apply to our NEOs (the senior executives included in the 2013 Summary Compensation Table on page 46). It also describes the actions and decisions of the Committee and the Committee's special Subcommittee (the Subcommittee), both of which oversee the executive compensation program and determine the compensation of the NEOs. A detailed discussion of the Committee's structure (including the Subcommittee), roles and responsibilities, and related matters can be found under Compensation Committee on pages 21-23.

Executive Compensation Philosophy and Core Principles

The fundamental philosophy of the Compensation Committee is to provide an executive compensation program that links pay to business strategy and performance in a manner that is effective in attracting, motivating

and retaining key executives while also aligning the interests of the executives with the interests of shareholders over the long-term. In order to continue to support the Company's high-performance culture, the Company's key principles underlying the executive compensation program are to:

Attract and retain executives with the skills and experience needed to successfully grow the Company and create value for shareholders;

Create an entrepreneurial culture and mindset by de-emphasizing fixed pay (primarily salary) and focusing a significant percentage of compensation on at-risk pay elements (annual and long-term incentives); and

Motivate and reward executives for achieving exceptional performance which will create value for shareholders over the long-term. The Company will continue to adjust its pay practices to support these principles over time.

2013 Say-on-Pay Advisory Vote on Executive Compensation

The Compensation Committee monitors closely the results of the annual advisory say-on-pay vote, and considers such results as one of the many factors considered in connection with the discharge of its responsibilities. In 2013, the Company provided shareholders a say-on-pay advisory vote on its executive compensation program, as disclosed in the Company's 2013 proxy statement. At the 2013 Annual Meeting, approximately 87% of our shareholders expressed support for the compensation of our NEOs as disclosed in the proxy statement. The Compensation Committee considered the results of the 2013 advisory vote and also considered other factors in evaluating the Company's executive compensation programs as discussed in this Compensation Discussion and Analysis, including the advice of the Committee's independent compensation consultant. The Committee did not make any changes to the Company's executive compensation program and policies specifically in light of the aforementioned vote by our shareholders.

Role of Management and Independent Advisors

The Compensation Committee meetings are regularly attended by the CEO, the Senior Vice President of Human Resources, who is responsible for leading some of the discussions regarding the Company's compensation programs as well as being responsible for recording the minutes of the meeting, and in-house corporate counsel. The Committee may request the participation of management or outside consultants as it deems necessary or appropriate. The Committee regularly reports to the Board on compensation matters and annually reviews the CEO's compensation with the Board.

The Committee and the Subcommittee may also meet in executive session without any members of management, for the purpose of among other things discussing and approving compensation for the CEO. The CEO reviews the performance of, and makes recommendations to, the Committee regarding total compensation to be paid to the Company's executive officers other than himself, including salary, annual bonus, long-term incentive awards and perquisites, as appropriate. Management also develops and presents to the Committee recommendations for the performance measures and targets to be used to evaluate annual performance incentives.

After the end of each fiscal year, the Committee conducts a review of the CEO's performance. As part of this process, the CEO provides a written self-assessment report. The Committee sets the compensation of the CEO in executive session after considering its assessment of the CEO's performance, including due consideration of his self-assessment report. Neither the CEO nor any other members of management are present during this session.

The Committee has sole discretion, at the Company's expense, to retain and terminate independent advisors, including sole authority to approve the fees and retention terms for such advisors, if it shall determine the services of such advisors to be necessary or appropriate. Such advisors are engaged by, and report directly to, the

Committee. During 2013 the Committee was assisted in fulfilling its responsibilities by Semler Brossy Consulting Group, LLC (Semler Brossy). The scope of the engagement of this advisor during 2013 included:

Assisting the Chairman of the Committee in establishing appropriate agendas for the Committee meetings;

Reviewing management reports and recommendations to the Committee as related to executive compensation matters;

Attending all Committee meetings and providing the Committee with input and advice based on the advisor's broad experience with market practices, including a perspective with regard to the competitive market;

Assisting with the review of pay and performance and the evaluation of payouts under the Company's long-term incentive program;

Assisting in the review and evaluation of non-employee Director compensation;

Providing the Committee and management with data on market practices for executive pay;

On behalf of the Committee, assisting management with disclosures, including the Compensation Discussion and Analysis; and

Providing updates to the Committee with regard to regulatory and market developments.

Semler Brossy did not provide any services to the Company, other than advising the Committee as provided above. All of the decisions with respect to the Company's executive compensation are made by the Committee alone and may reflect factors and considerations other than, or that may differ from, the information and recommendations provided by management or its outside advisor.

Factors Used to Evaluate Pay Decisions

The Company does not currently manage compensation for individual executives to a specific total compensation value or based on a strategy of positioning pay to a specific percentile of market practices. Rather, the Company seeks to retain the services of executives who bring the skills, experience, and motivation needed to significantly expand the scope and scale of the Company's operations. Therefore, compensation decisions for individual executives are made based on a balance of many subjective factors as evaluated by the CEO in the case of his direct reports (with Committee review and approval) and the Committee in the case of the CEO. These factors include, in order of importance for each element of pay:

Base salaries tied to internal equity comparisons among the executive's peers at the Company, the Committee's perspectives on competitive market pay practices and salary at a previous employer at the time of hire;

Target annual incentive opportunities based on internal equity considerations and the perceived level of contribution expected of the executive;

Long-term incentive opportunities driven by the perceived level of contribution expected of the executive toward achieving the Company's growth objectives and comparisons among other Company executives who participate in the same programs; and

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Severance and change in control benefits as negotiated on an individual basis by each executive and as deemed necessary to attract their services.

Each element of compensation is evaluated independently based on the role of that component in achieving the Company's overall compensation objectives, with an emphasis on long-term incentives.

In making executive pay decisions, the Committee relies substantially on the advice and experience of its independent advisor and CEO to evaluate the reasonableness of executive pay. As there are few direct peers to

the Company, the Committee does not rely directly on peer practices to establish pay levels or programs for its executives. Rather, the Committee determines pay levels and practices based on the talent needs of the organization as defined by our strategy of growing and diversifying revenues and with the guidance of the Committee's independent advisor.

While the Committee periodically conducts reviews of pay relative to broad market practices, based on data provided by the Committee's independent advisor, to set context for the Company's programs from time to time, the Committee does not use market compensation practices to drive decision making. Rather, the Committee evaluates market data to see how and why the Company's compensation practices differ from market practices and to gauge where Company compensation falls relative to the market as a secondary test of reasonableness. It is the opinion of the Committee that the pay decisions made by the Company and the Committee are reasonable relative to pay provided to executives at other public companies, based on the Committee's experience, the performance expectations established for each element of pay, and consultation with the Committee's independent advisor.

CEO Compensation

Compensation decisions made for the CEO are fundamentally different than compensation decisions made for the other executive officers. As the highest ranking executive, Mr. Evans is ultimately accountable for the performance of the business in both the near-term and long-term. Mr. Evans is also responsible for setting the strategic direction of the Company, managing the other executive officers to implement this strategy, and producing results for shareholders.

As such, in recognition of the level of responsibility and accountability placed upon the CEO and the degree of impact that he can have on business results, the pay for the CEO position differs from the other executives in two material respects:

Higher salary and bonus opportunity, commensurate with level of responsibility and impact; and

Emphasis on at-risk pay in the total compensation package, as appropriate to align pay with performance.

As mentioned above, the new Company LTIP for NEOs other than the CEO are more directionally aligned with the awards to the CEO in that they include specific stock price based performance hurdles in order to vest. We believe this alignment ensures overall alignment of the interests of our executive team with the interests of our shareholders.

Components of Compensation

During 2013, the Company used multiple components to provide an overall compensation and benefits package in order to attract and retain the needed level of executive talent for the Company.

Base Salary

The Committee's philosophy is that base salaries should meet the objectives of attracting and retaining the executive talent needed to grow the business and create shareholder value, without being a major focus of the overall compensation package. This approach is consistent with the desire to create an entrepreneurial management culture at the Company. Therefore, the Committee establishes base salaries for new hires based on the advice of management and its independent advisor regarding reasonable market pay practices, comparisons with the executive's peers at the Company, and the rate of pay provided at the executive's previous employer. Upon promotion or other adjustment of responsibilities, executives receive base pay increases that are commensurate with their new role or responsibilities and the pay levels for colleagues at similar levels in the organization and market pay practices, with more modest rates of increase thereafter. Increases in base salary affect the opportunity for annual incentive payouts under the incentive compensation plan.

In 2013, the following adjustments were made to the base salaries for the Company's NEOs:

Name	Position	2012 Base Salary (\$)	Percentage Change	Salary Change (\$)	2013 Base Salary (\$)
Robert L. Evans	Chairman & CEO	\$ 550,000	9.1%	\$ 50,000	\$ 600,000
William E. Mudd	EVP & CFO	420,000	3.6%	15,000	435,000
William C. Carstanjen	President & COO	465,000	3.2%	15,000	480,000
James E. Gay	Senior Vice President	335,000	0.0%	-0-	335,000
Alan K. Tse	EVP & GC	290,000	3.4%	10,000	300,000

The salary adjustments above further illustrate the Committee's overall philosophy toward compensation. Based upon Mr. Evans' additional responsibilities to the Board as Chairman, additional consideration was given to his base salary, and the Committee authorized an increase in his base salary commensurate with his level of responsibility. The other NEOs, excluding Mr. Gay, were given moderate increases in alignment with the Committee's philosophy. Mr. Gay did not receive any additional increase to his base salary, in 2013, as his base salary was previously adjusted by the Committee to reflect compensation commensurate with his new role as President of Churchill Downs Interactive.

Executive Annual Incentive Plan

Effective January 1, 2013, pursuant to the approval granted by the Company's shareholders, at the 2012 Annual Meeting, the Company implemented the Executive Annual Incentive Plan (2013) (EAIP). Bonus awards or incentive compensation paid, in 2013, were determined by the Committee per the EAIP. Pursuant to the EAIP, the Committee established performance goals for the Company in 2013. In analyzing proposed awards against target and maximum payouts, the Committee used the goals as its roadmap to determine whether to issue awards above, at, or below each NEO's target award. As it has done historically, for 2013, the Committee sets performance goals based upon a comprehensive assessment of the Company against its long-term strategic goals and its ability to achieve said goals with its current leadership team and key employees. Therefore, individual performance by the Company's NEOs (as measured by various factors, including, but not limited to, continued growth and diversification of the Company's asset portfolio through acquisitions, customer and employee satisfaction, and the completion of certain specified legislative and regulatory outcomes), and unit performance (as measured by among other things increases in sales and revenues) led by some of the Company's key employees also played a significant role in setting and evaluating the Company's performance goals, and determining the proper level of compensation necessary to incent the NEOs and key employees to continue to drive growth with the same entrepreneurial zeal.

2013 Performance Goals. For 2013, the Committee set the following goals (per segment) for the Company. These goals were used to assess the NEOs' performance and determine EAIP payouts as disclosed in the 2013 Summary Compensation Table on page 46. The goals are expressed generally as follows:

Racing

Manage overall budgets to reduce cost (without impacting the customer experience);

Increase the financial performance of big events (i.e., Kentucky Derby, Kentucky Oaks, Arlington Million, etc.);

Continue to work on innovative approaches to combat the long-term decline in racing;

Gaming

Achieve Adjusted EBITDA goals at our gaming properties;

Successfully re-develop, construct and open current projects and properties;

Assess and pursue opportunities to acquire accretive gaming properties;

Online

Continue to invest in and grow our advanced deposit wagering businesses;

Assess and pursue opportunities to expand our online gaming profile;

Other

Increase Adjusted EBITDA;

Develop technology-driven cost out opportunities for all subsidiaries; and

Assess and plan for the impact of the Patient Protection and Affordable Care Act (PPACA) on our business.

Incentive Opportunities. Under the EAIP, the NEOs have target award opportunities, which the Committee reserves the right to exercise negative discretion against if it so chooses. For NEOs, these targets are determined by the Committee based on the internal pay equity considerations, impact on total short-term compensation and the expected level of contribution of each NEO to the Company's performance goals and growth objectives.

The Compensation Committee approves the target and maximum incentive levels proposed by the CEO for each NEO, excluding himself, at the beginning of each year. In determining the payouts, the Compensation Committee exercises its discretion to determine whether to payout at, above, or below the target opportunities based upon its review of the outcomes evaluated against Company and individual performance. During 2013, the target and maximum awards assigned to the CEO and other NEOs were as follows, which were the same target and maximum award opportunities as established under the 2012 incentive compensation plan:

Name	Position	Target Incentive Award as a		Maximum Target Incentive Award as a	
		Percentage of Salary	Target Incentive Award in (\$)	Percentage of Salary	Maximum Target Incentive Award in (\$)
Robert L. Evans	Chairman & CEO	100%	\$ 600,000	200%	\$ 1,200,000
William E. Mudd	EVP & CFO	70%	304,500	200%	609,000
William C. Carstanjen	President & COO	75%	360,000	200%	720,000
James E. Gay	Senior Vice President	60%	201,000	200%	402,000
Alan K. Tse	EVP & GC	60%	180,000	200%	360,000

2013 Performance Results. The Company's continued diversification, in 2013, included the acquisition of a regional casino in Oxford, Maine, and the successful opening of a joint venture video lottery parlor and harness racetrack in Lebanon, Ohio. Total attendance at the 139th Kentucky Derby and Oaks was strong despite inclement weather, hosting 265,436 fans. Wagering from all-sources on the Kentucky Derby totaled \$184.6 million. These achievements contributed to significant benefits being realized by the Company's shareholders.

The results for amounts earned by the NEOs for 2013 under the EAIP are reflected in the 2013 Summary Compensation Table on page 46 in the column labeled Non-Equity Incentive Plan Compensation. As noted above, the Company exhibited strong financial performance in 2013, which exceeded the performance goals. The top three NEOs (Mr. Evans, Mr. Carstanjen, Mr. Mudd) were viewed by the Committee to be the primary parties responsible for meeting and exceeding the performance goals in 2013. The Compensation Committee, after considering overall Company performance awarded the named executive officers EAIP awards above the target, as shown in the table on page 46, to reward them for the Company's outstanding performance. As such, the NEOs were awarded an EAIP award at the following percentage of their base salary: Mr. Evans 138%, Mr. Carstanjen 147%, Mr. Mudd 148%, Mr. Tse 131%, and Mr. Gay 104%. These awards were made pursuant to the EAIP and as a reward for the NEOs respective roles in driving performance during the period ending December 31, 2013.

Long-Term Incentives

Corporate Long-Term Incentive Plan. The objective of the Company's long-term incentive compensation program is to support the entrepreneurial mindset desired by management and the Board of Directors by providing an opportunity to earn significant equity in the Company for achieving significant performance improvements.

For 2013, the Company opted to develop a new long-term incentive program utilizing the 2007 Omnibus Stock Incentive Plan (the "New Company LTIP"). As a way to continue to encourage innovation, an entrepreneurial approach, and careful risk assessment, in addition to the retention of key executives, the Company's new incentive program offers new long-term incentive compensation opportunities to the Company's NEOs, with the exception of Robert L. Evans. Restricted stock awards were issued, to the NEOs, under the New Company LTIP, on March 21, 2013.

The restricted stock awards are divided between time-vesting and stock price-vesting restricted stock (weighted approximately 25% and 75%, respectively). All time-based restricted shares will vest by December 31, 2016, while the stock-price vesting restricted shares vest over a five-year performance period based on the Company's stock price performance.

For each NEO, with the exception of Alan K. Tse, vesting of the time-based restricted shares will occur in two equal installments on December 31, 2015 and December 31, 2016. In the case of Mr. Tse, his time-based restricted shares vest in increments of twenty-five percent (25%) in 2013, 2014, 2015, and 2016.

The vesting schedules for the stock-price based restricted share awards are tied to stock-price triggers. The stock-price triggers for the NEOs are comprised of four vesting triggers tied to the daily closing NASDAQ stock market price for the Company's Common Stock (collectively, referred to as the "Stock Price Triggers"). Stock Price Trigger 1 is at least 10% above the trailing 20-day average NASDAQ market closing price on the date of grant and each successive Stock Price Trigger (2, 3 and 4) is at least 10% above the preceding Stock Price Trigger, with the vesting of the stock price shares to occur in 25% installments for each Stock Price Trigger attained. In order for a Stock Price Trigger to be reached the Company must successfully achieve and maintain for a 20 consecutive trading day period a specific daily share closing price value.

As an additional key executive retention device, the vesting of any Stock Price Triggers achieved in 2013 was subject to the NEO's continued employment until the first anniversary of the grant date, March 21, 2014. If the Company does not achieve a Stock Price Trigger during the five-year performance period, NEOs under this program will forfeit any incentive compensation opportunity tied to such Stock Price Trigger.

During 2013, the Company achieved the first and second Stock Price Triggers under the New Company LTIP. The Company's daily share closing price, closed at or above Stock Price Trigger 1 for twenty (20) consecutive trading days, resulting in each NEO earning the award tied to Stock Price Trigger 1 on May 24, 2013. The Company's daily share closing price closed at or above Stock Price Trigger 2 for twenty (20) consecutive trading days, resulting in each NEO earning the award tied to Stock Price Trigger 2 on December 19, 2013. Since Stock Price Triggers 1 and 2 were attained in 2013, pursuant to the vesting schedule of the New Company LTIP, the share awards associated with both triggers did not vest until March 21, 2014.

Upon the first and second triggers being achieved, 50% of the total stock-price vesting award opportunity to the NEOs (excluding Mr. Evans who does not participate in the New Company LTIP) was earned under the New Company LTIP. The amounts earned by each NEO (excluding the Chairman & CEO who did not participate in the plan) with regard to the achievement of the first and second triggers under the New Company LTIP are as follows:

Name	Position	New Company LTIP Share Award for Achievement of Stock Price Trigger 1 ⁽¹⁾	Fair Market Value for Stock Price Trigger 1 in (\$) as of 5/24/13	New Company LTIP Share Award for Achievement of Stock Price Trigger 2 ⁽¹⁾	Fair Market Value for Stock Price Trigger 2 in (\$) as of 12/19/2013
Robert L. Evans	Chairman & CEO	n/a	\$ n/a	n/a	\$ n/a
William E. Mudd	EVP & CFO	20,000	1,646,000	20,000	1,769,600
William C. Carstanjen	President & COO	22,500	1,851,750	22,500	1,990,800
James E. Gay	Senior Vice President	10,750	884,725	10,750	951,160
Alan K. Tse	EVP & GC	9,750	802,425	9,750	862,680

(1) These awards are disclosed in the 2013 Summary Compensation Table on page 46 and the Grant of Plan-Based Awards Table for Fiscal Year Ended December 31, 2013, on page 48, based on the aggregate grant date fair value of the award. The amounts reported for the New Company LTIP include both the vested and unvested restricted shares granted to each NEO. The 2013 Summary Compensation Table and Grants of Plan-Based Awards Table for Fiscal Year ended December 31, 2013 also reflect the awards made pursuant to the 2008-2012 LTIP related to the achievement of the fourth and fifth EBITDA targets as those awards were deemed granted during 2013.

2008-2012 LTIP. The 2008-2012 LTIP terminated on December 31, 2012. As disclosed in the 2013 Proxy Statement, during 2012, the Company achieved the fourth and fifth EBITDA targets under the 2008-2012 LTIP, which were \$115 million and \$130 million in EBITDA, respectively. Upon the determination that the fourth and fifth EBITDA targets had been achieved, 30% of each NEO's payment opportunity (excluding Mr. Evans who did not participate in the 2008-2012 LTIP) associated with such targets was earned, while the amount earned for the remaining portion of such payment opportunity varied among the applicable NEOs based upon such NEO's contribution to the growth in EBITDA that resulted in the target being achieved, as determined by the CEO with the approval of the Sub-Committee. The performance awards paid under the 2008-2012 LTIP for the achievement of the fourth and fifth EBITDA targets were paid in the form of restricted stock, which will vest in equal quarterly installments over two (2) years in the case of the fourth EBITDA target, and one (1) year in the case of the fifth EBITDA target, beginning on March 31, 2013. The amounts earned by each NEO (excluding the CEO who did not participate in the 2008-2012 LTIP) with regard to the achievement of the fourth and fifth EBITDA targets under the 2008-2012 LTIP were as follows:

Name	Position	2008-2012 LTIP Share Award for Achievement of EBITDA Target 4 ⁽¹⁾	Fair Market Value for EBITDA Target 4 in (\$) as of 12/31/2012	2008-2012 LTIP Share Award for Achievement of EBITDA Target 5 ⁽¹⁾	Fair Market Value for EBITDA Target 5 in (\$) as of 12/31/2012
Robert L. Evans	Chairman & CEO	n/a	\$ n/a	n/a	\$ n/a
William E. Mudd	EVP & CFO	18,811	1,250,000	10,534	700,000
William C. Carstanjen	President & COO	24,454	1,625,000	13,544	900,000
James E. Gay	Senior Vice President	11,287	750,000	3,762	250,000
Alan K. Tse	EVP & GC	3,762	250,000	1,881	125,000

(1) These awards are disclosed in the 2013 Summary Compensation Table on page 46 and the Grant of Plan-Based Awards Table, for Fiscal Year Ended December 31, 2013, on page 48 as shares were granted in 2013 pursuant to these awards. The 2013 Summary Compensation Table reflect the awards made pursuant to the 2008-2012 LTIP related to the achievement of the fourth and fifth EBITDA targets, as well as, the awards, both vested and unvested, issued pursuant to the New Company LTIP, which were awarded in March of 2013.

As illustrated in the tables above, although the column labeled "Stock Awards" on the 2013 Summary Compensation Table on page 46 reflects the total equity awards granted in 2013, we are providing further detail so as to disclose to our shareholders that the amounts reflect the overlap of two long-term incentive programs in the same calendar year (2013). Both the 2008-2012 LTIP and New Company LTIP had awards that were granted in calendar year 2013. Therefore, the figures reported, in the "Stock Awards" column, for fiscal year end December 31, 2013, in the 2013 Summary Compensation Table on page 46, constitute an anomaly that the Compensation Committee and Company does not anticipate occurring again during the performance periods remaining until the expiration of the New Company LTIP. Nonetheless, the Compensation Committee and Board agree that the level of award granted to the NEOs for performance under the 2008-2012 and New Company LTIP demonstrate soundly the philosophy that by placing a sufficient degree of compensation at-risk the NEOs are incented to drive growth to a level that returns significant value to the Company's shareholders.

Long-Term Incentives for the CEO. Mr. Evans as the CEO received a significant grant of Company stock (with both time- and performance-based vesting) as a component of his original 2006 employment agreement and his amended and restated employment agreement in 2010 and therefore he has not been, nor is he currently, a participant in the New Company LTIP. The Committee believes that having a separate incentive plan for the CEO from the incentive plan for the rest of the executive team in this context is appropriate and beneficial as it allows the CEO to evaluate the Company's long-term performance and make recommendations to the Committee regarding the pay of his direct reports without bias to his own compensation from the Company. Mr. Evans was not granted any equity-based awards in 2011, 2012 or 2013.

Deferred Compensation Benefits

The Company's philosophy is to provide retirement and savings benefits to executives which are commonly provided by other public companies. These benefits include:

401(k). The Company maintains a 401(k) Retirement Plan, which is a profit sharing plan that is intended to be a qualified retirement plan under Section 401(a) of the Code. The 401(k) Retirement Plan allows all employees who meet the eligibility requirements to become participants. Participants may make salary deferral contributions pursuant to Section 401(k) of the Code up to limits prescribed by the plan and the Code. The Company makes matching contributions with respect to such salary deferrals at a rate of 100% on the first 3% of compensation deferred and 50% on deferrals in excess of 3% of compensation deferred but no more than 5% of compensation deferred. Salary deferral contributions and matching contributions are fully vested at all times. Participants are allowed to direct investment of their accounts under the 401(k) Retirement Plan into as many as 25 investment options. All assets of the 401(k) Retirement Plan are held in a trust which is intended to be qualified under Section 501 of the Code.

Deferred Compensation Plan. The Company also maintains a Deferred Compensation Plan for select executives. The purpose of the plan is to provide eligible executives of the Company an opportunity to defer to a future date the receipt of base salary and bonus compensation for services and to receive matching contributions in similar fashion as provided by the Company's 401(k) Retirement Plan for any base salary and bonus deferred beyond the limits imposed by the IRS for that plan. The Committee believes that a Deferred Compensation Plan is a normal and typical benefit for executives at companies similar to the Company and is necessary to attract and retain executive talent.

For purposes of determining earnings under the Deferred Compensation Plan, various hypothetical investment alternatives are selected by the Committee in its discretion. The Deferred Compensation Plan allows, but does not require, the Committee to receive input from participants regarding such investment alternatives. The current hypothetical investments selected by the Committee include 33 investment return options for determining the rate of return to be credited on participant deferrals. Participants are allowed to choose among these investment return options in order to direct the hypothetical investments used to determine earnings under the Plan.

Life insurance contracts have been purchased by the Company to provide some or all of the benefits under the Deferred Compensation Plan. Other details regarding the Deferred Compensation Plan can be found in the Nonqualified Deferred Compensation Table and the accompanying narrative below.

Allowances and Other Benefits

The Company's standard, non-cash executive benefits are Company-paid premiums on executive term life insurance and an optional supplemental long-term disability income plan for all of the NEOs. These plans provide benefits which are similar to those provided to all employees, but extend the benefit levels to be appropriate to the income of the executive officers.

The Company's executive perquisites are as follows:

Automobile allowance, including reimbursement for gas expenses, in the case of Mr. Evans, as provided for in the negotiated terms of Mr. Evans' amended and restated employment agreement with the Company;

Reimbursement of spouse's travel expenses for travel with the executive on Company business on a case-by-case basis; and

In lieu of paying for country club dues, professional association memberships or similar items, the Chairman and Chief Executive Officer, President and Chief Operating Officer and all Executive Vice Presidents are given an annual allowance of \$10,000 to cover expenses such as these, except Mr. Gay, who is allocated \$7,500.

Severance Benefits

The Committee believes that arrangements which provide benefits upon termination or a change in control of the Company support the goals of attracting and retaining qualified executives by clarifying the terms of employment and reducing the risks to the executive in situations where the executive believes that the Company may undergo a merger or be acquired or where the Company has tasked the executive to develop new markets or lines of business for the Company. In addition, the Committee believes that such agreements align the interests of executives with the interests of shareholders if a qualified offer to acquire the Company is made, in that each of the executives would likely be aware of or involved in any such negotiation and it is to the benefit of shareholders to have the executives negotiating in the best interests of the Company without regard to their personal financial interests. The terms of the individual agreements have been negotiated on a case by case basis with each executive at the time of hire (or in some cases, at the time of a material change in duties) as the Committee deemed necessary to induce the acceptance of employment with the Company. The Committee believes that amounts payable under each of these agreements were necessary to induce acceptance of the Company's offer of employment or, as applicable, material change in duties and are reasonable based on the Committee's judgment and experience.

Additional information regarding severance benefits may be found under "Potential Payments Upon Termination or Change in Control" below.

Section 162(m) of the Code

For 2014, Mr. Behrens' base salary was increased from \$310,000 to \$340,000 and his annual on-target MIC award was increased from \$310,000 to \$340,000 in order to better align his cash compensation with market.

On December 12, 2013, as part of the 2014 LTIP, Mr. Behrens received an annual equity award with a grant date value of \$1,000,000, consisting of 31,632 performance shares and 39,540 stock options.

Daniel J. Frate, Group President, Strategic Products & Global Markets

Mr. Frate has served as our Group President, Strategic Products & Global Markets since joining us in August 2012.

For 2014, Mr. Frate's base salary was \$400,000 and his annual on-target MIC award was \$400,000.

On December 12, 2013, as part of the 2014 LTIP, Mr. Frate received an annual equity award with a grant date value of \$1,000,000, consisting of 31,632 performance shares and 39,540 stock options.

Carolyn B. Homberger, Group President, Customer Management & Maintenance

Ms. Homberger has served as our Group President, Customer Management & Maintenance since December 2013. Ms. Homberger joined in December 2006. She has led the financial planning and analysis team and held other operational leadership positions at the Company.

For 2014, Ms. Homberger's base salary was \$275,000 and her on-target MIC award was \$275,000.

On December 12, 2013, as part of the 2014 LTIP, Ms. Homberger received an annual equity award with a grant date value of \$750,000, consisting of 23,724 performance shares and 29,655 stock options.

Apratim Purakayastha, Group President, ACI On-Demand

Mr. Purakayastha has served as our Group President, ACI On-Demand, since December 2013. He joined the Company in August 2010 and has held senior leadership positions in product support and product development.

For 2014, Mr. Purakayastha's base salary was \$275,000 and his annual on-target MIC award was \$275,000.

On December 12, 2013, as part of the 2014 LTIP, Mr. Purakayastha received an annual equity award with a grant date value of \$750,000, consisting of 23,724 performance shares and 29,655 stock options.

Table of Contents**Analysis of 2014 Incentive Compensation Programs****2014 Executive MIC**

The 2014 MIC program ran from January 1, 2014 through December 31, 2014. All MIC awards granted to our executive officers, including our Named Executive Officers, granted pursuant to the Executive MIC Plan (the 2014 Executive MIC). Under the 2014 Executive MIC, executive officers were eligible to receive annual bonus awards based on combinations of performance metrics which fall into one of two classes: (i) Core Company Financial Metrics consisting of operating income, SNET and 60-month backlog, and (ii) business unit performance metrics. The objective of the 2014 Executive MIC was to encourage executives to contribute toward the attainment of the Company's consolidated financial and performance goals for fiscal year 2014.

The 2014 MIC program incorporated a funding mechanism related to the funding of the incentive pool available for payout of MIC bonuses (the Funded Incentive Pool). Only the Core Company Financial Metrics were used to determine the Funded Incentive Pool. The total Funded Incentive Pool available for payout is the weighted payout of the three performance metrics, which equaled 31.91% for the 2014 MIC.

Core Company Financial Metric	Metric Weighting	MIC Bonus	
		Target Attainment Percentage	Payout Percentage
Operating Income	75%	90% Attainment	40%
		Target Attainment	100%
		118% Attainment	200%
Sales, Net of Term Extensions	15%	90% Attainment	40%
		Target Attainment	100%
		114% Attainment	200%
60-Month Backlog	10%	98% Attainment	40%
		Target Attainment	100%
		103% Attainment	200%

The incorporation of the Funded Incentive Pool provides a common set of performance metrics to fund the MIC program for all participants. By establishing a Funded Incentive Pool tied to three key financial metrics, all executive officers and members of the senior management team focused on achieving results in operating income, SNET and 60-month backlog.

Bonus payouts under the 2014 MIC program, including, the 2014 Executive MIC, could have been more or less than the target 100% bonus opportunity (up to a maximum of 200%) depending on the level of attainment against each performance metric target. However, the total MIC bonus paid to our Named Executive Officers could not exceed the Funded Incentive Pool percentage.

The performance metrics, relative metric weight and actual attainment for the annual bonus opportunities under the 2014 Executive MIC based on the Core Company Financial Metrics are set forth in the table below.

2014 Executive MIC

Core Company Financial Metric	Metric	2014 Performance		Attainment Percentage	Payout Percentage	Weighted Payout Percentage
		January 1, 2014 Target	December 31, 2014 Actual			
Operating Income(1)	75%	\$ 211,670	\$ 162,902	0%	0%	0%
SNET	15%	\$ 732,286	\$ 702,103	95.88%	95.88%	14.38%
60-Month Backlog	10%	\$ 3,856,083	\$ 3,859,046	102.61%	175.3%	17.53%
TOTAL PAYOUT						31.91%

- (1) Operating Income objectives and actual results excluded foreign exchange expenses and certain one-time expenses.

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The table below sets forth the individual payments and payout percentages provided to our Named Executive Officers during 2014.

Name of Executive	2014 Executive MIC	
	Payout Amount	Payout Percentage
	(\$)	(%)
Philip G. Heasley	0	0
Scott W. Behrens	108,494	31.91
Daniel J. Frate	43,400	10.85
Carolyn J. Homberger	211,338	76.85
Apratim Purakayastha	211,338	76.85

Mr. Heasley recommended to the Committee that he receive no payments under the 2014 Executive MIC and the Committee exercised its discretion accordingly. He otherwise would have received a payout percentage equal to the Funded Incentive Pool Percentage of 31.91%.

Ms. Homberger and Mr. Purakayastha were each paid additional discretionary bonuses of \$123,585, raising their payout percentages to 76.85%. For each, this additional bonus amount reflected their business unit's relative performance. They otherwise would have received a payout percentage equal to the Funded Incentive Pool Percentage of 31.91%.

2014 LTIP

The 2014 LTIP was comprised of a combination of stock options and performance shares. The Committee believes that the combination of stock option and performance share awards reinforces the objectives of making long-term incentives (i) variable so that the level of variable compensation actually earned by the executive depends on the Company's performance against specified financial, operational and strategic goals, and (ii) directly tied to increasing stockholder value. Stock options provide a critical and direct link between executives and stockholders.

LTIP Performance Shares. Performance shares provide a competitive performance-based substitute to traditional time-based equity awards while linking executive management incentives to stockholder interests. We design the performance shares compensation program and the applicable performance metrics to focus executives on a clear set of objectives over a three-year performance period. The performance metrics and the relative weight of each metric are developed for each plan cycle and approved by the Committee.

Performance shares granted as part of the 2014 LTIP have a three-year performance period which runs from January 1, 2014 through December 31, 2016 (the Performance Period). Performance shares granted to participants, including our Named Executive Officers, as part of the 2014 LTIP are earned, if at all, based upon the achievement, over the Performance Period, of performance goals relating to the following: (a) compound annual growth rate over the Performance Period in SNET for the Company and (b) the cumulative operating income over the Performance Period for the Company, in each case as determined by the Company.

Receipt of performance shares granted as part of the 2014 LTIP is not guaranteed, and the grantees, including our Named Executive Officers, will earn the awards only if both performance goals exceed a threshold performance level. If the Company achieves the threshold performance level for both performance goals, then grantees will earn performance shares based on a performance matrix that provides 50% of the awarded performance shares are earned for threshold performance, 100% of the awarded performance shares are earned for target performance and 200% of performance shares are earned for performance at or above the maximum performance. Payments for performance between the threshold and maximum levels are interpolated based on the level of performance achieved.

In accordance with applicable accounting standards, expense related to performance share awards is accrued if the attainment of performance indicators is probable as determined by management. The expense is recognized over the applicable Performance Period. Each quarter management evaluates the probability that the target performance goals will be achieved, if at all, and the anticipated level of attainment.

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LTIP Stock Options. The Committee included time-vested stock options in the 2014 LTIP to reward long-term Company performance, link an executive's incentives to the stockholders' interests in increasing stockholder value and to provide executives with incentives to stay with the Company. Stock options granted as part of 2014 LTIP vest in equal annual installments over a three-year period and have a 10-year term. In accordance with the Company's equity award granting policy, the exercise price of all stock options equals the closing sale price (price for last trade) of our common stock as reported by The NASDAQ Global Select Stock Market on the date of grant.

Equity Policies

Stock Ownership Guidelines

Our executive officers have stock ownership guidelines designed to link the interests of executive management with that of our stockholders. These guidelines provide that our executive officers, including our Named Executive Officers, should have specific equity positions in the Company which vary by position. Under the guidelines, our CEO is expected to own shares with a value equal to six times his base salary. The remaining executive officers, including our Named Executive Officers, are expected to own shares with a value equal to three times their base salary. Shares used to calculate compliance with the ownership guidelines include direct share purchases, shares acquired through any employee benefit plan, as well as vested shares of restricted stock and the vested in-the-money portion of any stock options held by the executive officer. Current ownership levels for the Named Executive Officers vary depending on their length of employment with us. Each executive officer has five years from the date of their appointment to an executive officer position to achieve the target ownership levels. An executive officer who fails to meet the ownership guidelines within the five-year period will not be eligible for new equity awards until he or she achieves his prescribed ownership level.

Tax and Accounting Implications

Deductibility of Executive Compensation

Section 162(m) of the Code limits the deductibility of compensation in excess of \$1 million paid to our Named Executive Officers, unless the compensation qualifies as performance-based compensation. Among other things, in order to be deemed performance-based compensation, the compensation must be based on the achievement of pre-established, objective performance criteria and must be pursuant to a plan that has been approved by our stockholders.

We believe that it is important to continue to be able to take all available company tax deductions with respect to the compensation paid to our Named Executive Officers. However, we also believe that preserving flexibility in awarding compensation is in our best interest and that of our stockholders, and we may determine, in light of all applicable circumstances, to award compensation in a manner that will not preserve the deductibility of such compensation under Section 162(m) of the Code.

Employment Agreements with Named Executive Officers

CEO Employment Agreement

On March 5, 2005, we entered into an Employment Agreement (the "CEO Employment Agreement") with Philip G. Heasley, pursuant to which Mr. Heasley agreed to serve as our President and CEO for an initial term of four years. The CEO Employment Agreement was amended on September 7, 2007 and subsequently amended and restated on January 7, 2009 (the "Restated CEO Employment Agreement"). A copy of the Restated CEO Employment Agreement was attached as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on January 7, 2009.

Following the initial six-year employment period, the Restated CEO Employment Agreement is automatically extended for successive one-year periods, unless we give 30 days' written notice to Mr. Heasley that the Restated CEO Employment Agreement will not be renewed for an additional year, or unless the Restated CEO Employment Agreement is otherwise terminated in accordance with its terms. So long as Mr. Heasley continues to serve as our President and CEO, the Board will nominate Mr. Heasley to serve as a member of our

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Board of Directors. The Restated CEO Employment Agreement provides that during one-year renewal periods, Mr. Heasley’s base salary, an annual on-target MIC award as well as other compensation as set forth in the Restated CEO Employment Agreement will be mutually agreed upon by the Board and Mr. Heasley.

Pursuant to the Restated CEO Employment Agreement, if Mr. Heasley’s employment is terminated by the Company without cause or by Mr. Heasley for good reason, Mr. Heasley will be entitled to (1) a lump sum payment equal to his bonus for the quarter in which his employment is terminated; (2) a lump sum payment equal to two times the sum of (A) his base salary at the time of termination and (B) his average annual bonus amount received during the two most recent fiscal years of the Company ending prior to the date of termination; and (3) continued participation in the Company’s medical and dental plans until the earlier of (a) two years or (b) until he is eligible to be covered under any other medical or dental plans. Mr. Heasley will also be subject to certain non-competition obligations for a period of one year following termination of his employment. The Restated CEO Employment Agreement also provides that if payments by the Company to Mr. Heasley would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, then Mr. Heasley will be entitled to a gross up payment such that he will be in the same after-tax position as if no excise tax had been imposed. If Mr. Heasley is entitled to payments under the Change-in-Control Employment Agreement (as described below), no payments will be made to Mr. Heasley under the Restated CEO Employment Agreement.

2015 Compensation Update

2015 Peer Group

The peer group used to compare the levels and elements of compensation provided to our executive officers in 2015 was the reference peer group that was developed by Pearl Meyer for 2014, except that PTC Inc. and Total System Services, Inc. have been added to the 2015 peer group. The companies in the 2015 peer group are:

- | | |
|--------------------------------|-----------------------------|
| Advent Software Inc. | Pegasystems Inc. |
| Blackbaud Inc | Progress Software Corp |
| CSG Systems International Inc. | PTC Inc. |
| Euronet Worldwide Inc. | Solera Holdings Inc. |
| Fair Isaac Corp | SS&C Technologies Hlgs |
| Henry (Jack) & Associates | TIBCO Software Inc. |
| Informatica Corp. | Total System Services, Inc. |
| Micros Systems Inc. | Verifone Systems Inc. |

Compensation data from the peer group was considered by the Committee in making its 2015 compensation decisions in addition to Company performance and individual performance and contributions.

The criteria for selecting companies for our 2015 peer group included U.S. publicly-traded companies in the software or information technology services industries of an appropriate similarity of size, based on revenue or market capitalization as well as companies that have a similar focus in terms of products or customer which would likely compete against the Company for financial capital and employees.

In January 2015, the Committee established 2015 compensation for our executive officers, including our Named Executive Officers. In connection with establishing the 2015 compensation for our CEO and executive officers, the Committee engaged Pearl Meyer to conduct a competitive compensation analysis for key senior management positions within the Company, including each Named Executive Officer’s position (the 2015 Competitive Analysis). In the 2015 Competitive Analysis, Pearl Meyer provided compensation data on the CEOs of our peer group companies for the Committee’s consideration as well as compensation data on the other executive officer positions and general industry compensation survey data. The 2015 Competitive Analysis contains information related to the median levels (50th percentile) of our peer group or market median levels.

CEO Compensation

The Committee reviewed the 2015 Competitive Analysis and determined that Mr. Heasley’s base salary of \$700,000 and on-target MIC award of \$700,000 were consistent with its compensation philosophy and therefore, the Committee did not make any changes to Mr. Heasley’s base salary or on-target MIC award.

Table of Contents**Other Named Executive Officers**

The Committee accepted the CEO's recommendations and increased Mr. Behrens', Ms. Homberger's and Mr. Purakayastha's base salary to \$350,000, \$310,000 and \$310,000 effective January 1, 2015, respectively. Mr. Behrens', Ms. Homberger's and Mr. Purakayastha's on-target MIC award for 2015 remained 100% of their base salary. Mr. Frate's base salary of \$400,000 remained unchanged and his on-target MIC award for 2015 remained 100% of his base salary.

Incentive Compensation

2015 Executive MIC. All MIC awards granted to our executive officers, including our Named Executive Officers, in 2015 were granted pursuant to the Executive MIC Plan (the 2015 Executive MIC). The structure of the 2015 Executive MIC is consistent with the 2014 Executive MIC. MIC bonus amounts are determined based upon the achievement of two categories of performance metrics: (i) funding metrics which consist of the following core Company financial metrics: operating income and SNET and (ii) business unit performance metrics. A MIC bonus may be more or less than 100% (up to a maximum of 200%) of its target level depending upon the percentage attainment of the performance metrics in the executive officer's plan.

2015 LTIP. On January 26, 2015, the Committee granted the 2015 LTIP awards to the executive officers, including our Named Executive Officers. The form of the 2015 LTIP award is comprised of a combination of stock options and performance shares. The performance shares granted as part of the 2015 LTIP awards are earned, if at all, based upon the achievement, over a three-year period commencing January 1, 2015 and ending December 31, 2017 of performance goals relating to the following: (i) compound annual growth rate over the performance period in SNET Company, and (ii) the cumulative operating income over the performance period for the Company in each case as determined by the Company. Under the 2015 LTIP, the Committee granted our Named Executive Officers the following 2015 LTIP awards:

Name	Grant Date Value(1)	Number of Stock Options	Number of On-Target Performance Shares
Philip G. Heasley	\$ 4,000,000	251,969	125,786
Scott W. Behrens	\$ 1,000,000	62,992	31,447
Daniel J. Frate	\$ 1,000,000	62,992	31,447
Carolyn B. Homberger	\$ 1,000,000	62,992	31,447
Apratim Purakayastha	\$ 1,000,000	62,992	31,447

(1) Grant date value was computed in accordance with FASB ASC Topic 718. The performance shares comprised approximately 60% and the stock options comprised approximately 40% of the grant date value delivered.

2015 Supplemental LTIP. On January 26, 2015, the Committee granted 2015 Supplemental LTIP awards to certain executive officers, including all of our Named Executive Officers other than the CEO. The 2015 Supplemental LTIP is in addition to the 2015 LTIP. The performance shares granted as part of the 2015 Supplemental LTIP awards are earned, if at all, based upon the achievement, over a five-year period commencing January 1, 2015 and ending December 31, 2019 of performance goals relating to the following: (i) compound annual growth rate over the performance period in SNET, and (ii) the cumulative operating income over the performance period for the Company, in each case as determined by the Company.

The 2015 Supplemental LTIP included a grant of stock options that are scheduled to vest in three equal installments on the third, fourth and fifth anniversary of the grant date. These options become exercisable, if at all, in three equal increments if the closing price per share of the Company's common stock on the NASDAQ Global Select Market meets or exceeds 133%, 167% and 200%, respectively, of the closing price of the Company's common stock on the grant date for at least 20 consecutive trading days prior to the fifth anniversary of the grant date.

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Under the 2015 Supplemental LTIP, the Committee granted our Named Executive Officers the following 2015 Supplemental LTIP awards:

Name	Grant Date Value(1)	Number of Supplemental Stock Options	Number of On-Target
			Supplemental Performance Shares
Scott W. Behrens	\$ 750,000	47,224	23,585
Daniel J. Frate	\$ 500,000	31,496	15,527
Carolyn B. Homberger	\$ 750,000	47,224	23,585
Apratim Purakayastha	\$ 750,000	47,224	23,585

(1) Grant date value was computed in accordance with FASB ASC Topic 718. The supplemental performance shares comprised approximately 60% and the supplemental stock options comprised approximately 40% of the grant date value delivered.

COMPENSATION COMMITTEE REPORT

The Compensation and Leadership Development Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with management. Based on our review and discussions, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

MEMBERS OF THE COMPENSATION AND LEADERSHIP

DEVELOPMENT COMMITTEE

John M. Shay, Jr., Chairman

Harlan F. Seymour

Jan H. Suwinski

Table of Contents**EXECUTIVE COMPENSATION**

The following table sets forth the compensation paid to or earned by our Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers (based on total compensation as reflected in the table below) during the fiscal year ended December 31, 2014 and preceding fiscal years. The executive officers included in the Summary Compensation Table in the Executive Compensation section below are collectively referred to as our Named Executive Officers.

Summary Compensation Table(1)

Name and Principal Position (a)	Period (b)	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
		(\$) (c)	(\$) (d)	(\$)(2) (e)	(\$)(3) (f)	(\$)(4) (g)	(\$)(5) (i)	(\$) (j)
Philip G. Heasley, President and Chief Executive Officer	2014	700,000	0	0	0	0	4,744	704,744
Philip G. Heasley, President and Chief Executive Officer	2013	650,000	0	2,271,011	1,230,436	531,427	4,516	4,687,390
Scott W. Behrens, Senior Executive	2012	600,000	0	1,901,577	1,098,731	642,780	4,516	4,247,604
Scott W. Behrens, Senior Executive	2014	340,000	0	0	0	108,494	4,785	453,279
Daniel J. Frate, Group President, Strategic Products & Global Markets	2013	310,000	0	648,878	351,561	253,450	4,516	1,568,405
Daniel J. Frate, Group President, Strategic Products & Global Markets	2012	297,140	0	633,845	366,244	238,747	4,516	1,540,492
Daniel J. Frate, Group President, Strategic Products & Global Markets	2014	400,000	0	0	0	43,400	35,991	479,391
Carolyn B. Homberger, Group President, Customer Management & Maintenance	2014	275,000	123,585	0	0	87,753	43,500	529,888
Apratim Purakayastha, Group President, ACI On-Demand	2014	275,000	123,585	0	0	87,753	4,516	490,904

- (1) Column (h) to this table entitled "Change in Pension Value and Nonqualified Deferred Compensation Earnings" has been omitted because no compensation is reportable thereunder.
- (2) The amounts in column (e) reflect the aggregate grant date fair value of the restricted stock awards and the performance share awards granted during the respective fiscal year as computed in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures. The amounts shown do not correspond to the actual value that will be recognized by the Named Executive Officer. The assumptions used in the calculation of these amounts are included in footnote 11 to the Company's audited financial statements for the fiscal year ended December 31, 2014 included in our Annual Report. See the "2014 Grants of Plan-Based Awards" table for information on performance shares granted in 2014. The grant date fair values included in column (e) for the performance shares are based upon the probable outcome of the performance conditions. No stock awards were granted to our Named Executive Officers in 2014.
- (3) The amounts in column (f) reflect the aggregate grant date fair value of the stock option awards granted during the respective fiscal year as computed in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures. The amounts shown do not correspond to the actual value that will be recognized by the Named Executive Officer. The assumptions used in the calculation of these amounts are included in footnote 11 to the Company's audited financial statements for the fiscal year ended December 31, 2014 included in our Annual

Report. No option awards were granted to our Named Executive Officers in 2014.

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- (4) The amounts in column (g) represent amounts earned by the Named Executive Officers during 2014 pursuant to the 2014 Executive MIC. The table below sets forth the amounts earned by the executive during 2014 under the 2014 Executive MIC but paid to the executive in February 2015 and the respective payout percentages:

Name of Executive	2014 Executive MIC	
	Payout Amount	Payout Percentage(a)
	(\$)	(%)
Philip G. Heasley	0	0
Scott W. Behrens	108,494	31.91
Daniel J. Frate	43,400	10.85
Carolyn B. Homberger	211,338	76.85
Apratim Purakayastha	211,338	76.85

- (a) The percentages shown reflect the percentage of the target bonus opportunity amounts paid to each Named Executive Officer based on the performance metrics and targets applicable to each Named Executive Officer and the Company's performance against such targets during the plan period. Mr. Heasley recommended to the Compensation Committee that he receive no payments under the 2014 Executive MIC and the Compensation Committee exercised its discretion accordingly. He otherwise would have received a payout percentage equal to 31.91%. Ms. Homberger and Mr. Purakayastha were each paid additional discretionary bonuses of \$123,585, raising their payout percentages to 76.85%. They otherwise would have received a payout percentage equal to 31.91%. These discretionary bonuses are reported in the Bonus column of the Summary Compensation Table.

- (5) All Other Compensation includes the following payments or accruals for each Named Executive Officer:

Name of Executive	Employer Contributions to the 401(k) Plan	Premiums for Long-Term Disability Insurance	Perquisites	Tax Gross-Ups
	(\$)	(\$)	\$(a)	\$(b)
Philip G. Heasley	4,000	516	168	60
Scott W. Behrens	4,000	516	168	101
Daniel J. Frate	4,000	516	24,109	7,366
Carolyn B. Homberger	4,000	516	30,872	8,112
Apratim Purakayastha	4,000	516	0	0

- (a) For Mr. Heasley and Mr. Behrens, consists of a corporate gift. For Mr. Frate, consists of \$16,800 of moving and relocation expenses, \$7,051 for a club trip and \$168 for a corporate gift. For Ms. Homberger, consists of \$30,872 in moving and relocation expenses.
- (b) For Mr. Heasley and Mr. Behrens, consists of a de minimis tax gross-up for the corporate gift. For Mr. Frate, consists of a customary tax gross-up for the moving and relocation expenses, a tax gross-up for the club trip and tax gross-up for the corporate gift. For Ms. Homberger, consists of a customary tax gross-up for the moving and relocation expenses.

Table of Contents**2014 Grants of Plan-Based Awards**

In 2014, we did not make any grants of plan-based awards to our Named Executive Officers as the 2014 LTIP and 2014 MIC awards were granted on December 12, 2013 and the 2015 LTIP and 2015 MIC Awards were granted on January 27, 2015. Accordingly, the 2014 Grants of Plan-Based Awards table has been omitted.

Outstanding Equity Awards at 2014 Fiscal Year End									
Option Awards(1)									
Name	Option Grant Date	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Market Value of Shares or Units of Stock		Stock Awards	Equity Incentive
						That Have	that Have	Plan Awards: Number of Unearned Shares, Units or Other Rights That Have	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have
(a)		(b)	(c)	(e)	(f)	Not Vested (#)	Not Vested (\$)	Not Vested(3) (#)	Not Vested(4) (\$)
		Exercisable	Unexercisable(2)			(g)	(h)	(i)	(j)
Philip G. Heasley	12/12/2013	46,129	92,258	20.51	12/12/2023			110,709	2,233,001
	12/3/2012	111,048	55,524	14.27	12/3/2022			133,257	2,687,794
	12/8/2011	161,151		9.65	12/8/2021			128,922	2,600,357
	12/1/2010	131,670		8.88	12/1/2020				
	7/24/2007	300,000		10.87	7/24/2017				
Scott W. Behrens	12/12/2013	13,180	26,360	20.51	12/12/2023			31,632	638,017
	12/3/2012	37,015	18,509	14.27	12/3/2022			44,418	895,911
	12/8/2011	60,150		9.65	12/8/2021			48,120	970,580
	12/1/2010	48,285		8.88	12/1/2020				
	12/10/2009	45,375		5.51	12/10/2019				
	6/27/2007	45,000		11.53	6/27/2017				
Daniel J. Frate	12/12/2013	13,180	26,360	20.51	12/12/2023			31,632	638,017
	12/3/2012	37,015	18,509	14.27	12/3/2022			44,418	895,911
	9/13/2012	66,732	33,366	15.07	9/13/2022			51,189	1,032,482
Carolyn B. Homberger	12/12/2013	9,885	19,770	20.51	12/12/2023			23,724	478,513
	12/3/2012	7,032	3,516	14.27	12/3/2022			8,439	170,215

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	12/8/2011	10,878		9.65	12/8/2021		8,703	175,540
	12/1/2010	5,490		8.88	12/1/2020			
	12/10/2009	9,600		5.51	12/10/2019			
	2/1/2008	9,000		5.39	2/1/2018			
Apratim Purakayastha	12/12/2013	9,885	19,770	20.51	12/12/2023		23,724	478,513
	12/3/2012	3,516	3,516	14.27	12/3/2022		8,439	170,215
	12/8/2011	3,627		9.65	12/8/2021		8,703	175,540

- (1) Column (d) to this table under "Option Awards" entitled "Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options" has been omitted because no shares are reportable thereunder.
- (2) Unless otherwise noted all stock options vest in equal installments over a three-year period beginning with the first anniversary of the date of grant.
- (3) This column reflects the payout of the underlying shares of our common stock related to performance shares granted in 2011, 2012 and 2013 pursuant to the 2005 Incentive Plan based on the achievement of target performance for each metric. Performance shares granted on December 8, 2011 have a performance period from January 1, 2012 through December 31, 2014, performance shares granted on December 3, 2012 have a performance period from January 1, 2013 through December 31, 2015, and performance shares granted on December 12, 2013 have a performance period from January 1, 2014 through December 31, 2016.

Table of Contents**Option Exercises and Stock Vested**

The following table sets forth option exercises and stock vested for each of our Named Executive Officers for the year ended December 31, 2014.

Name	Option Exercises and Stock Vested			
	Option Awards		Stock Awards	
	Number of Shares		Number of Shares	
	Acquired on Exercise	Value Realized on Exercise	Acquired on Vesting	Value Realized on Vesting(1)
(a)	(#) (b)	(\$) (c)	(#) (d)	(\$) (e)
Philip G. Heasley	1,187,124	14,448,837	142,833	2,812,858
Scott W. Behrens	0	0	52,377	1,031,478
Daniel J. Frate	0	0	51,189	998,186
Carolyn B. Homberger	0	0	5,955	117,274
Apratim Purakayastha	10,803	105,820	11,910	234,548

(1) In accordance with SEC rules, the amounts in column (c) were calculated by determining the difference between the market price of the underlying securities at exercise and the exercise price of the options, and the amounts in column (e) were calculated by multiplying the number of shares of restricted stock that vested by the market value of the underlying shares on the vesting date.

Deferred Compensation Plan

In September 2010, the Compensation Committee approved the Amended and Restated Deferred Compensation Plan (the "Deferred Compensation Plan"). A copy of our Deferred Compensation Plan was attached as Exhibit 4.3 to our Registration Statement on Form S-8 filed with the SEC on September 9, 2010.

The Deferred Compensation Plan is an unfunded, nonqualified deferred compensation plan designed to allow a select group of management or highly compensated employees designated by our Compensation Committee, including our Named Executive Officers, to save for retirement on a tax-deferred basis. The Deferred Compensation Plan is intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended. The effective date for the Deferred Compensation Plan was October 1, 2010. The initial plan year commenced October 1, 2010 and ended on December 31, 2010. Each plan year thereafter runs from January 1 to December 31.

Amounts deferred under the Deferred Compensation Plan will be credited to bookkeeping accounts maintained by the Company for each participant and will be credited or debited with the participant's proportionate share of any gains or losses attributable to the earnings indices selected by the participant. The Compensation Committee will designate the earnings indices available to participants; provided, however, under no circumstances shall the value of our common stock be used as an earnings index. The Committee selected the following four earnings indices: S&P 500, the Russell 2000, the Barclay's Bond Index and a fixed rate of return equivalent to the prime rate. The earnings indices are to be used for measurement purposes only and amounts deferred under the Deferred Compensation Plan will not represent any actual investment made on the participant's behalf by the Company. The amount that the Company is required to pay under the Deferred Compensation Plan is equal to the elective deferrals made by the participant, as adjusted for the hypothetical gains or losses based on the earnings indices selected by the participant. The Company may make discretionary contributions to participant accounts in such amounts and at such times as are determined by the Company from time to time in its sole discretion.

Amounts deferred by a participant are fully vested at all times. The Compensation Committee may impose a vesting schedule of up to five years with respect to discretionary contributions, if any, made by the Company to a participant account.

The amounts payable to participants under the Deferred Compensation Plan will be payable in accordance with the distribution provisions of the Deferred Compensation Plan. Distribution generally cannot be made prior

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to the distribution dates specified by the participants, other than withdrawals made in the event of a participant's (i) unforeseeable emergency, as defined in the Deferred Compensation Plan, (ii) separation from service, (iii) death or (iv) disability. Distributions will be made to participants in a single lump-sum payment after the earliest of (a) the participant's separation from service, (b) the participant's death or (c) the participant's disability (Standard Distribution). In lieu of the Standard Distribution timing, a participant may elect, at the time of deferral, to receive distribution in a given plan year (a) at a specified date or time (or upon attainment of a specific age), or (b) upon the earlier of such date (or age) or one or more of the Standard Distribution events. A participant may also elect, at the time of deferral, to receive distributions in annual installments for a period of up to 10 years. Deferred amounts retained in a participant's account during the payout period continue to earn hypothetical gains and are subject to hypothetical losses based on the earnings indices selected by the participant.

Amounts deferred under the Deferred Compensation Plan are general unsecured obligations of the Company and are subject to the claims of the Company's general creditors and rank equally with other unsecured indebtedness of the Company from time to time outstanding.

The Deferred Compensation Plan is administered by the Compensation Committee and the Compensation Committee has full power to interpret the plan and determine all questions that arise under it. The Compensation Committee reserves the right to amend or terminate the Deferred Compensation Plan at any time; provided, however, that no such action shall affect a participant's right to receive the full amount of his or her vested account balance.

During 2014, none of our Named Executive Officers made any contributions to the Deferred Compensation Plan and the Company did not make any discretionary contributions to any Named Executive Officer's account.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

Except for the employment agreement with Mr. Heasley described above, and the change-in-control agreements described below, none of our Named Executive Officers have employment or severance agreements with the Company and their employment may be terminated at any time.

Change-In-Control Employment Agreements

We have entered into a Change-In-Control Employment Agreement (the CIC Agreement) with certain of our Named Executive Officers (each an Executive for purposes of this section). A copy of the form of CIC Agreement for all Executives was attached as Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on January 7, 2009.

Under the CIC Agreement, we are required to employ the Executive for a two-year period following a change-in-control (the Employment Period). During the Employment Period, we must (1) pay the Executive a base salary equal to the highest annual rate of base salary paid or payable to the Executive during the 12-month period prior to the change-in-control, (2) award the Executive for each fiscal period during the Employment Period total annual and quarterly bonus opportunities in amounts greater than or equal to the Executive's target annual and quarterly bonus opportunities for the year in which the change-in-control occurs, and (3) allow the Executive opportunities to participate in the Company's incentive, savings and retirement plans to an extent no less favorable than opportunities provided for by the Company in the 120-day period prior to the beginning of the Employment Period.

The CIC Agreement also sets forth our obligations in the event the Executive's employment terminates during the Employment Period. The following is a summary of such obligations.

Termination of Employment Other Than for Cause or by Executive for Good Reason. If we terminate the Executive's employment other than for cause or the Executive's death or disability, or the Executive terminates his employment for good reason, the Executive will be entitled to receive from the Company certain payments and benefits. These payments and benefits include (1) the lump sum payment of (a) the Executive's unpaid current year annual base salary through the date of termination, the current year target annual bonus pro-rated through the date of termination, and any accrued and unpaid vacation pay (collectively, the Accrued

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Obligations), and (b) two or, in the case of Mr. Heasley only, three times, the sum of the Executive's annual base salary and target annual bonus; (2) continued participation at the Company's cost in the welfare benefits plans in which the Executive would have been entitled to participate, for two or, in the case of Mr. Heasley only, three years, from the date of termination or until the Executive receives equivalent benefits from a subsequent employer, in which case, welfare benefits plans provided by the Company will be secondary to the subsequent employer's plans during the applicable period of eligibility; (3) outplacement services not to exceed \$50,000; and (4) any unpaid amounts that are vested benefits or that the Executive is otherwise entitled to receive under any plan, policy, practice or program of, or any other contract or agreement with, the Company or the affiliated companies at or subsequent to the date of termination (the Other Benefits).

Death. If the Executive's employment is terminated by reason of the Executive's death, we must provide the Executive's estate or beneficiaries with the Accrued Obligations and the timely payment or delivery of the Other Benefits, and will have no other severance obligations under the CIC Agreement.

Disability. If the Executive's employment is terminated by reason of the Executive's disability, we must provide the Executive with the Accrued Obligations and the timely payment or delivery of the Other Benefits, and shall have no other severance obligations under the CIC Agreement.

Termination of Employment for Cause or by Executive other than for Good Reason. If the Executive's employment is terminated for cause, we must provide the Executive with the Executive's annual base salary through the date of termination, and the timely payment or delivery of the Other Benefits, and will have no other severance obligations under the CIC Agreement. If the Executive voluntarily terminates employment, excluding a termination for good reason, we must provide to the Executive the Accrued Obligations and the timely payment or delivery of the Other Benefits, and will have no other severance obligations under the CIC Agreement.

Tax-Gross-Up. If any payment under the CIC Agreement would be subject to excise tax, the Executive will be entitled to receive an additional payment (the Gross-Up Payment) in an amount such that, after payment by the Executive of all taxes, including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and excise tax imposed upon the Gross-Up Payment, but excluding any income taxes and penalties imposed pursuant to Section 409A of the Code, the Executive retains an amount of the Gross-Up Payment equal to the excise tax imposed upon the payments. There is, however, a provision of the CIC Agreements under which a portion of the Executive's payments under the CIC Agreement will be forfeited if the excise tax can be eliminated (provided the forfeiture cannot exceed 10% of the amount due to the Executive).

Acceleration of Equity Awards. In the event of a change-in-control, all stock-based awards held by the Executive will vest in full, in each case immediately prior to the occurrence of such change-in-control, and any applicable performance-based vesting goals with respect to such stock-based awards granted to the Executive shall be deemed satisfied at the target level; *provided, however*, that (a) any performance shares awarded under the Company's 2005 Incentive Plan and (b) any stock options which vest upon the attainment of a certain per-share transaction price in connection with a change-in-control granted under the Company's 2005 Incentive Plan, will, in each case, vest pursuant to the terms of the applicable award agreement, notwithstanding the provision of any award agreement requiring that market conditions exist for a specified duration of time.

Non-solicitation and Non-competition Provisions. During the Employment Period and for a period of one year following termination of employment, each Executive agrees not to (a) enter into or engage in any business that competes with the Company's business within a specified restricted territory; (b) solicit customers with whom the Executive had any contact or for which the Executive had any responsibility (either direct or supervisory) at the date of termination or at any time during the one (1) year prior to such date of termination, whether within or outside of the restricted territory, or solicit business, patronage or orders for, or sell, any products and services in competition with, or for any business that competes with the Company's business within the restricted territory; (c) divert, entice or otherwise take away any customers, business, patronage or orders of the Company within the restricted territory, or attempt to do so; (d) promote or assist, financially or otherwise, any person, firm, association, partnership, corporation or other entity engaged in any business that competes with the Company's business within the restricted territory; or (e) solicit or induce or attempt to solicit or induce any employee(s), sales representative(s), agent(s) or consultant(s) of the Company and/or its affiliated companies to

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terminate their employment, representation or other association with the Company and/or its affiliated companies, provided that the foregoing shall not apply to general advertising not specifically targeted at employees, sales representatives, agents or consultants of the Company and/or its affiliated companies.

Release. As a condition to receiving any of the severance benefits under the CIC Agreements, the Named Executive Officers are required to release the Company and its employees from all claims that the Named Executive Officer may have against them.

Post-Termination Benefits Under Incentive Plans

Executive MIC Plan

Under the Executive MIC Plan, in order to be entitled to a payment under the plan, the executive, including our Named Executive Officers, must be employed by the Company on the date of payment. If employment with the Company is terminated for any reason prior to the payment date, the executive will not be eligible for a bonus under the Executive MIC Plan and the executive forfeits all rights to such payment except to the extent otherwise provided by the Company.

The individual award agreements with each executive officer, including our Named Executive Officers, related to the Executive MIC Plan, grant the Company the right to require an executive officer to forfeit his or her right to payment or to reimburse the Company for any payments previously paid, along with any other action the Company deems necessary or appropriate, in the event it is determined that the executive officer engaged in misconduct in the course of his or her employment.

2005 Incentive Plan

Stock Options. The award agreements for stock options granted under the 2005 Incentive Plan generally provide that if an optionee, including a Named Executive Officer, voluntarily terminates employment with the Company, all unvested stock options will terminate and the optionee will have 90 days from the date of termination to exercise any vested stock options granted under the 2005 Incentive Plan. However, the award agreements also generally provide that if the optionee's employment terminates due to death or disability, all stock options will immediately vest upon the optionee's death or disability and the optionee (or his or her estate or personal representative) will have one year from the date of death or disability to exercise the stock options. Award agreements to executive officers, including our Named Executive Officers, also generally provide that all stock options will immediately vest upon the occurrence of a change-in-control of the Company. A copy of the form of Nonqualified Stock Option Agreement used to grant stock options to employees, including our Named Executive Officers, under the 2005 Incentive Plan was filed as Exhibit 10.4 to our Current Report on Form 8-K filed with the SEC on January 30, 2015.

Performance Shares. The award agreements for performance shares granted under the 2005 Incentive Plan generally provide that if an employee, including a Named Executive Officer, voluntarily terminates employment with the Company prior to payment of the performance shares, all performance shares are forfeited. In the event of death, disability or termination of employment without cause, the award agreements generally provide that the Company must pay the employee a pro-rata portion of the performance shares the officer would have been entitled based on the performance of the Company during the full fiscal quarters completed during the applicable performance period until the date of termination. Such amounts will be paid made as soon as practicable after the receipt of audited financial statements of the Company relating to the last fiscal year of the performance period. The award agreements for performance shares also provide that in the event of a change-in-control of the Company, the Company will pay the employee, within 60 days of the change-in control, a pro-rata portion of the performance shares the employee would have been entitled to based on the performance of the Company at the target level for the full fiscal quarters completed during the applicable performance period prior to the date of the change-in-control. A copy of the form of LTIP Performance Shares Agreement used to grant performance shares to employees, including our Named Executive Officers, under the 2005 Incentive Plan was filed as Exhibit 10.3 to our Current Report on Form 8-K filed with the SEC on January 30, 2015.

Restricted Shares. The award agreements for restricted shares granted under the 2005 Incentive Plan generally provide that if any employee, including a Named Executive Officer, voluntarily terminates

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employment with the Company, the employee forfeits all unvested restricted shares. However, the award agreements also generally provide that if the employee's employment terminates due to death or disability, all shares of restricted stock will immediately vest upon the employee's death or disability. Award agreements to executive officers, including our Named Executive Officers, also generally provide that all shares of restricted stock will immediately vest upon the occurrence of a change-in-control of the Company. A copy of the form of Restricted Share Award Agreement used to grant restricted shares to employees, including our Named Executive Officers, under the 2005 Incentive Plan was filed as Exhibit 10.29 to our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on February 26, 2009.

Supplemental Stock Options. The award agreements for supplemental stock options granted under the 2005 Incentive Plan generally provide that if an optionee, including a Named Executive Officer, voluntarily terminates employment with the Company, all unvested stock options will terminate and the optionee will have 90 days from the date of termination to exercise any vested stock options granted under the 2005 Incentive Plan. A copy of the form of Supplemental Nonqualified Stock Option Agreement used to grant stock options to employees, including our Named Executive Officers, under the 2005 Incentive Plan was filed as Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on January 30, 2015.

Supplemental Performance Shares. The award agreements for supplemental performance shares granted under the 2005 Incentive Plan generally provide that if an employee, including a Named Executive Officer, voluntarily terminates employment with the Company prior to payment of the supplemental performance shares, all supplemental performance shares are forfeited. In the event of death, disability or termination of employment without cause, the award agreements generally provide that the Company must pay the employee a pro-rata portion of the supplemental performance shares the officer would have been entitled based on the performance of the Company during the full fiscal quarters completed during the applicable performance period until the date of termination. Such amounts will be paid made as soon as practicable after the receipt of audited financial statements of the Company relating to the last fiscal year of the performance period. A copy of the form of LTIP Supplemental Performance Shares Agreement used to grant performance shares to employees, including our Named Executive Officers, under the 2005 Incentive Plan was filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on January 30, 2015.

Forfeiture and Recoupment Provisions. Commencing in 2009, our form of award agreements for all awards granted to employees pursuant to the 2005 Incentive Plan, including Named Executive Officers, provide that if the Company is required to restate its consolidated financial statements because of material noncompliance due to irregularities with the federal securities laws, which restatement is due, in whole or in part, to the misconduct of the employee, or it is determined that the employee has otherwise engaged in misconduct (whether or not such misconduct is discovered prior to the termination of the employee's employment), the Company has (a) the right to cause the forfeiture or cancellation of any unvested and/or vested portion of the option, any unvested restricted shares or any unearned performance shares, (b) cause the transfer of ownership back to the Company of any vested shares not subject to transfer restrictions, common shares issued as payment for earned performance shares or cash received as payment for earned performance shares, and (c) the right to recoup any proceeds from (i) the exercise or vesting of the option, (ii) the vesting of the restricted shares, (iii) the sale of shares of our common stock issued pursuant to the exercise of the option or as payment for earned performance shares, and (iv) the sale of any unrestricted shares, along with any other action the Company determines is necessary or appropriate and in the best interest of the Company and its stockholders.

Other Stock Option Plans

The Company has two other stock option plans pursuant to which our Named Executive Officers held outstanding stock options at the end of 2014: the 1999 Stock Option Plan, as amended (the "1999 Option Plan"). The 1999 Option Plan expired on February 23, 2009. Termination or expiration of this plan does not affect the outstanding awards issued under the plans.

The award agreements for stock options granted under these option plans generally provide that if an optionee, including a Named Executive Officer, voluntarily terminates employment with the Company, all unvested stock options will terminate and the optionee will have one month from the date of termination to exercise any vested stock options. However, the award agreements also generally provide that if the optionee's

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employment terminates due to death or disability, all stock options will immediately vest upon the optionee's death or disability and the optionee (or his or her estate or personal representative) will have one year from the date of death or disability to exercise the stock options. The award agreements granting stock options to executive officers, including our Named Executive Officers, under each of these plans also generally provide that all stock options will immediately vest upon the occurrence of a change-in-control of the Company.

Potential Post-Termination Benefits Table

The table below quantifies certain compensation that would have become payable to our Named Executive Officers in the event such executive officer's employment had terminated on December 31, 2014 under various circumstances. The estimates set forth in the table below are based on our Named Executive Officers' compensation and service levels as of such date and, if applicable, the closing stock price of our common stock on that date which was \$20.17. These benefits are in addition to benefits generally available to salaried employees such as distributions under our 401(k) Plan, disability benefits and accrued vacation pay.

Due to the number of factors that affect the nature and amount of any benefits provided upon the events discussed below, any actual amounts paid or distributed to our Named Executive Officers may be different. Factors that could affect these amounts include the timing of any such event, our stock price and the executive's age.

Compensation Program	Voluntary For		Involuntary			Involuntary or for		Good Reason after Change-in-Control (\$)
	Good Reason (\$)	Other than Good Reason (\$)	For Cause (\$)	Without Cause (\$)	Death (\$)	Disability (\$)	Retirement (\$)	
Cash Severance:								
Philip G. Heasley	2,574,207	0	0	2,574,207	0	0	0	4,200,000
Scott W. Behrens	0	0	0	0	0	0	0	1,360,000
Daniel J. Frate	0	0	0	0	0	0	0	1,600,000
Carolyn B. Homberger	0	0	0	0	0	0	0	0
Apratim Purakayastha	0	0	0	0	0	0	0	0
Bonus Payment:								
Philip G. Heasley	0	0	0	0	0	0	0	700,000
Scott W. Behrens	0	0	0	0	0	0	0	340,000
Daniel J. Frate	0	0	0	0	0	0	0	400,000
Carolyn B. Homberger	0	0	0	0	0	0	0	0
Apratim Purakayastha	0	0	0	0	0	0	0	0
Stock Options(1):								
Philip G. Heasley	0	0	0	0	327,592	327,592	0	327,592
Scott W. Behrens	0	0	0	0	109,203	109,203	0	109,203
Daniel J. Frate	0	0	0	0	279,370	279,370	0	279,370
Carolyn B. Homberger	0	0	0	0	20,744	20,744	0	20,744
Apratim Purakayastha	0	0	0	0	20,744	20,744	0	20,744
Restricted Shares:								
Philip G. Heasley	0	0	0	0	0	0	0	0
Scott W. Behrens	0	0	0	0	0	0	0	0
Daniel J. Frate	0	0	0	0	809,947	809,947	0	809,947
Carolyn B. Homberger	0	0	0	0	0	0	0	0
Apratim Purakayastha	0	0	0	0	0	0	0	0
Performance Shares(2)(3):								
Philip G. Heasley	0	0	0	0	0	0	0	2,536,196
Scott W. Behrens	0	0	0	0	0	0	0	809,947
Daniel J. Frate	0	0	0	0	0	0	0	1,032,482
Carolyn B. Homberger	0	0	0	0	0	0	0	272,981
Apratim Purakayastha	0	0	0	0	0	0	0	272,981

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	Voluntary		Involuntary			Involuntary or for		Good Reason after Change-in-Control (\$)
	For Good Reason (\$)	Other than Good Reason (\$)	For Cause (\$)	Without Cause (\$)	Death (\$)	Disability (\$)	Retirement (\$)	
Compensation Program								
Health & Welfare Benefit Continuation:								
Philip G. Heasley	22,913	0	0	22,913	0	0	0	34,911
Scott W. Behrens	0	0	0	0	0	0	0	35,723
Daniel J. Frate	0	0	0	0	0	0	0	35,723
Carolyn B. Homberger	0	0	0	0	0	0	0	0
Apratim Purakayastha	0	0	0	0	0	0	0	0
Outplacement Services:								
Philip G. Heasley	0	0	0	0	0	0	0	50,000
Scott W. Behrens	0	0	0	0	0	0	0	50,000
Daniel J. Frate	0	0	0	0	0	0	0	50,000
Carolyn B. Homberger	0	0	0	0	0	0	0	0
Apratim Purakayastha	0	0	0	0	0	0	0	0
Excise Tax Gross-Up / (Forfeiture)								
Related to a CIC:								
Philip G. Heasley	0	0	0	0	0	0	0	0
Scott W. Behrens	0	0	0	0	0	0	0	1,211,845
Daniel J. Frate	0	0	0	0	0	0	0	0
Carolyn B. Homberger	0	0	0	0	0	0	0	0
Apratim Purakayastha	0	0	0	0	0	0	0	0
TOTALS:								
Philip G. Heasley	2,597,120	0	0	2,597,120	327,592	327,592	0	7,848,699
Scott W. Behrens	0	0	0	0	109,203	109,203	0	3,916,718
Daniel J. Frate	0	0	0	0	1,089,316	1,089,316	0	4,207,522
Carolyn B. Homberger	0	0	0	0	20,744	20,744	0	293,725
Apratim Purakayastha	0	0	0	0	20,744	20,744	0	293,725

- (1) Unvested stock options are accelerated upon termination due to death and disability and termination without cause or for good reason after a CIC. All the accelerated values are calculated based on the December 31, 2014 closing price of ACI (\$20.17). In-the-money values of vested stock options as of December 31, 2014, as disclosed in the following table, are not included in the termination table.

**In-the-money Value of Vested
Stock Options as of December 31,
2014**

Named Executive Officer	(\$)
Philip G. Heasley	6,628,022
Scott W. Behrens	2,467,764
Daniel J. Frate	558,722
Carolyn B. Homberger	580,430
Apratim Purakayastha	155,962

- (2) The estimated pro rata portion of performance shares set forth in this table and in the footnote below, relate solely to the performance shares granted December 8, 2011, December 3, 2012 and December 12, 2013.
- (3) Pursuant to the terms of the LTIP Performance Shares Award Agreement, if the employment of a grantee, including our Named Executive Officers, terminates without cause or due to death, disability or retirement approved by the Company, the grantee is entitled to receive a pro rata portion of the performance shares based on the performance of the Company during the performance period against the performance goals. For each grantee, including our Named Executive Officers, the payout of the pro rata portion of the performance shares that the individual is entitled to receive in the event of termination without cause or due

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to death, disability or retirement, will be paid out at the end of the performance period based on the audited financial statements of the Company relating to the last year of the performance period. Using the performance of the Company as of December 31, 2014 as a base and then annualizing such performance through the remaining performance period, the 2011 granted performance shares to vest at 91%, the 2012 granted performance shares to vest at 100% and the 2013 granted performance shares to vest at 100%. However, based on management's evaluation of the probability that the performance goals will be achieved used to determine the compensation expense to be recorded for the performance shares, the following table provides an estimate of the pro rata portion of the performance shares that would be paid to our Named Executive Officers upon completion of the performance period based on termination without cause or due to death, disability or retirement approved by the Company. The amounts shown do not correspond to the actual amount of performance shares, if any, or the actual value that will be realized by the Named Executive Officer.

Named Executive Officer	Estimated Pro Rata Number of Performance Shares Earned	Estimated Pro Rata Performance Share Value
	(#)	(\$)
Philip G. Heasley	243,060	4,902,520
Scott W. Behrens	83,945	1,693,171
Daniel J. Frate	40,156	809,947
Carolyn B. Homberger	21,453	432,707
Apratim Purakayastha	21,453	432,707

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Review and Approval of Related Person Transactions

We recognize that related person transactions can present potential or actual conflicts of interest and create the appearance that our decisions are based on considerations which may not be in our best interests or the best interests of our stockholders. Accordingly, as a general matter, we prefer to avoid related person transactions. Nevertheless, we recognize that there are situations where related person transactions may be in, or may not be inconsistent with, our best interests. Pursuant to the Audit Committee Charter, any proposed related person transaction is to be submitted to the Audit Committee for review and approval, and no such transaction may be entered into without the Audit Committee's prior approval. The Audit Committee reviews and considers each transaction in light of the specific facts and circumstances presented. Related persons include our directors or executive officers and their respective immediate family members and 5% beneficial owners of our common stock.

In addition, our Code of Business Conduct and Ethics establishes a policy on potential conflicts of interest. Under the Code of Business Conduct and Ethics our directors and employees, including our executive officers, must promptly report any transaction, relationship or circumstance that creates or may create a conflict of interest. Any conflict of interest for our non-director and non-executive officer employees is prohibited unless a waiver is obtained from our General Counsel. Conflicts of interest involving our directors and executive officers are prohibited unless waived by our Board or a committee of our Board. Any waiver of a conflict of interest involving one of our directors or executive officers will be promptly disclosed in accordance with applicable law and NASDAQ listing requirements. Pursuant to its charter, the Corporate Governance Committee is responsible for reviewing and considering possible conflicts of interest which involve members of our Board or management.

We also have a Code of Ethics for the CEO and Senior Financial Officers which requires that our CEO, CFO, Chief Accounting Officer, Controller and persons performing similar functions avoid actual and apparent conflicts of interest in personal and professional relationships and that they disclose to the Chairman of the Audit Committee any material transaction or relationship that reasonably could be expected to give rise to a conflict.

We did not enter into any related party transactions during 2014 and there are not any currently proposed related party transactions.

COMPENSATION COMMITTEE

INTERLOCKS AND INSIDER PARTICIPATION

No member of the Compensation and Leadership Development Committee was at any time during 2014, or at any other time, an officer or employee of the Company. No executive officer of the Company serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board or its Compensation and Leadership Development Committee.

ANNUAL REPORT

Stockholders may obtain a copy of our Annual Report and a list of the exhibits thereto without charge by written request delivered to the Company, Attn: Investor Relations, 3520 Kraft Rd, Suite 300, Naples, Florida 34105. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website at www.aciworldwide.com as soon as reasonably practicable after we file such information electronically with the SEC.

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STOCKHOLDER PROPOSALS

Stockholder Proposals to Be Considered for Inclusion in the Company's 2016 Proxy Statement

Proposals of stockholders intended to be included in the proxy statement and form of proxy relating to our 2016 Annual Meeting of Stockholders must be received at the Secretary of the Company at the Company's principal executive offices located at 3520 Kraft Rd, Suite 300, Naples, Florida 34105, no later than December 29, 2015. In addition, all proposals will need to comply with Rule 14a-8 of the Securities Exchange Act of 1934, which lists the requirements for inclusion of stockholder proposals in company-sponsored proxy materials. The Corporate Governance Committee will review proposals submitted by stockholders for inclusion at our next annual meeting of stockholders and will make recommendations to our Board on an appropriate response to such proposals.

Requirements for Stockholder Proposals to Be Brought Before the 2016 Annual Meeting of Stockholders

Pursuant to Rule 14a-4(c) under the Exchange Act, if the Company does not receive advance notice of a stockholder proposal to be brought before its next annual meeting of stockholders in accordance with the requirements of its Bylaws, the proxies solicited by the Company may confer discretionary voting authority to vote proxies on the stockholder proposal without any discussion of the matter in the proxy statement. Our Bylaws provide that written notice of a stockholder proposal that a stockholder intends to present at the next annual meeting, but does not intend to have included in the proxy statement and form of proxy related to such meeting, must be delivered to, or mailed and received by, the Secretary of the Company at the principal executive offices of the Company not less than 90 calendar days nor greater than 120 calendar days prior to the first anniversary of the date of the immediately preceding year's annual meeting of stockholders.

As to each matter the stockholder proposes to bring before the 2016 Annual Meeting of Stockholders, the stockholder's notice must set forth: (i) a brief description of the business desired to be brought before the 2016 Annual Meeting of Stockholders and the reasons for conducting such business at such annual meeting, (ii) the name and address, as they appear on the Company's books, of the stockholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class and number of shares of the Company which are owned beneficially and of record by the stockholder and the beneficial owner, if any, on whose behalf the proposal is made, (iv) a description of all arrangements or understandings among such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business, (v) whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of at least the percentage of shares of the Company entitled to vote required to approve the proposal, and (vi) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the annual meeting. Our Bylaws also provide that the chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the annual meeting and, if he should so determine, such business shall not be transacted.

OTHER MATTERS

Our Board does not know of any matters that are to be presented at the Annual Meeting other than those stated in the Notice of Annual Meeting and referred to in this Proxy Statement. If any other matters should properly come before the Annual Meeting, it is intended that the proxies in the accompanying form will be voted as the persons named therein may determine in their discretion.

By Order of the Board of Directors,

Dennis P. Byrnes

Secretary

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