



Lottery and Gaming Control Commission

1800 Washington Boulevard, Suite 330, Baltimore, MD 21230

Old Bay Gaming and Racing, LLC

Pledge of Collateral and Loan Guaranty Transaction

COMMISSION PRESENTATION

PLEDGE of COLLATERAL and LOAN GUARANTY TRANSACTION
(Old Bay Gaming and Racing, LLC)

EXECUTIVE SUMMARY

Background

On December 27, 2017, Churchill Downs, Inc. (“CDI”) entered into a Credit Agreement with various lenders to secure credit amounting to \$1.1 billion. The Credit Agreement provided for a \$400 million Senior Secured Term Loan B due 2024 and a \$700 million Senior Secured Revolving Credit Facility. The Term Loan bears interest at LIBOR plus 2%, and interest on the Revolving Credit Facility is LIBOR plus a calculated spread based on CDI’s total net leverage ratio. As of June 30, 2018, \$398 million of the Term Loan remained outstanding and there were no outstanding borrowings against the Revolving Credit Facility. Quarterly payments of \$1 million plus interest are made on the Term Loan.

The Credit Agreement contains customary affirmative and negative covenants including limitations on liens, investments, indebtedness, mergers and acquisitions, and transactions with affiliates. Additionally, financial covenants contained in the Agreement require CDI to maintain a maximum net leverage ratio and a minimum interest coverage ratio. As of June 30, 2018, CDI was in compliance with all covenants contained in the Credit Agreement.

Pledge of Old Bay Gaming and Racing, LLC as Collateral and Loan Guarantor

The Gaming Law (State Gov’t (SG) § 9-1A-01, *et seq.*) requires that the Commission determine whether a transfer of a licensee’s interests meets, and is consistent with, the requirements of the Gaming Law. SG § 9-1A-19. In August 2018, the Maryland Lottery and Gaming Control Agency received official notification of a proposed transaction between Saratoga Casino Holdings, LLC (“SCH”) and CDI wherein CDI would liquidate its 25% membership interest in SCH and, in exchange, SCH would

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liquidate its 50% membership interest in Old Bay Gaming and Racing, LLC and Old Bay Beverage Company, LLC. At its August 23, 2018 meeting, the Maryland Lottery and Gaming Control Commission approved the proposed transaction and as such, Old Bay is currently owned 100% by CDI.

Under the aforementioned Credit Agreement, CDI agreed to provide the lenders with liens on all CDI assets including any 100% owned subsidiaries, as well as having each such subsidiary act as a guarantor. Consequently, following the completion of the transaction between SCH and CDI on September 1, 2018, the Credit Agreement required CDI to pledge the assets of Old Bay Gaming and Racing, LLC, Racing Services, LLC, Ocean Enterprise 589, LLC and Ocean Downs, LLC as collateral, and for these entities to act as a guarantor of any borrowings made by CDI under the Agreement. CDI is requesting that the Commission permit each of the Old Bay entities to pledge their assets as collateral for the bank debt and to guaranty payment of the Term Loan and Revolving Credit Facility.

Maryland Gaming Regulatory Requirements

The Credit Agreement contains language that explicitly denotes that certain provisions contained therein are subject to prior approvals of the Maryland Lottery and Gaming Control Commission as required by the Maryland Gaming Law. Specifically, the Administrative Agent, each other Agent, each Lender and each participant acknowledge that rights, remedies and powers in or under the Credit Agreement, including with respect to the entry into and operation of the Gaming or Racing Facilities, and the possession or control of gaming equipment or a gaming license, may be exercised only to the extent that the exercise thereof does not violate any applicable provisions of the Gaming Law and only to the extent that any required approvals (including prior approvals) are obtain from the Commission.

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Conclusion

Based on our investigation, MLGCA staff has determined that the proposed transaction is consistent with the Gaming Law and; therefore, recommends Commission approval.