

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934 For Year  
Ended December 31, 1996 Commission File No.0-1469

CHURCHILL DOWNS INCORPORATED  
Exact name of registrant as specified in its charter

KENTUCKY  
-----  
State of Incorporation  
  
700 CENTRAL AVENUE, LOUISVILLE, KENTUCKY  
-----  
Address of Principal Executive Offices  
  
Registrant's Telephone Number, Including Area Code

61-0156015  
-----  
I.R.S Employer  
Identification No.

40208  
-----

Zip Code

502-636-4400

Securities registered pursuant to Section 12(b) of the Act:  
NONE

NONE

-----  
Title of Each Class

-----  
Name of Each Exchange  
on which registered

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

COMMON STOCK, NO PAR VALUE  
Title of Class

Indicate by check mark whether the Registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months and (2) has been subject to such filing  
requirements for the past 90 days. YES X NO

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

As of March 27, 1997, 3,654,264 shares of the Registrant's Common Stock were  
outstanding, and the aggregate market value of the shares held by nonaffiliates  
of the Registrant was \$90,000,000.

Portions of the Registrant's Proxy Statement for its Annual Meeting of  
Shareholders to be held on June 19, 1997 are incorporated by reference herein in  
response to Items 10, 11, 12 and 13 of Part III of Form 10-K.  
The exhibit index is located on pages 53 to 54.

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PART I

ITEM 1. BUSINESS

A. INTRODUCTION

Churchill Downs Incorporated (the "Company") primarily conducts  
pari-mutuel wagering on Thoroughbred and Standardbred horse racing at its  
facilities in Kentucky and Indiana. The Company owns and operates Churchill  
Downs racetrack in Louisville, Kentucky ("Churchill Downs"). Churchill Downs has  
conducted Thoroughbred racing continuously since 1875, and is internationally  
known as home of the Kentucky Derby. Through its subsidiary, Hoosier Park, L.P.,  
the Company is majority owner and operator of Hoosier Park in Anderson, Indiana  
("Hoosier Park"), which conducts both Thoroughbred and Standardbred racing. The  
Company conducts simulcast wagering on horse racing year-round at its four  
Churchill Downs Sports Spectrum facilities ("Sports Spectrum"), as well as its  
racetracks, in Kentucky and Indiana.

The Company was organized as a Kentucky corporation in 1928. Its  
principal executive offices are located at Churchill Downs, 700 Central Avenue,  
Louisville, Kentucky 40208.

B. KENTUCKY OPERATIONS

In Kentucky, the Company conducts Thoroughbred horse racing,  
accepts pari-mutuel wagering on such races, and conducts related business  
operations at Churchill Downs. The Company also owns and operates the Churchill  
Downs Sports Spectrum, its flagship simulcast wagering facility. Both facilities  
are located in Louisville, Kentucky.

CHURCHILL DOWNS

RACING

The Company owns and operates Churchill Downs, a legendary sports venue  
and one of the premier racetracks in the world. The racetrack was  
founded by Col. M. Lewis Clark as the Louisville Jockey Club in 1874,

and began conducting Thoroughbred racing the following year. Churchill Downs rose to prominence during the first half of this century as the Kentucky Derby became an internationally renowned classic. Churchill Downs has also hosted the Breeders' Cup Championship an unprecedented three times, in 1988, 1991 and 1994. Discussions are currently under way for the Company to be the host site of the 1998 Breeders' Cup Championship Day.

The Kentucky Derby and Kentucky Oaks, both annually run the first weekend in May, continue to be the Company's outstanding events. In 1996, the Company increased the purse for the Kentucky Derby to \$1 million, and raised the Kentucky Oaks purse to \$500,000,

making the Kentucky Oaks the country's richest three-year-old filly race. Kentucky Derby weekend accounted for approximately 30% of total on-track pari-mutuel wagering and 34% of total on-track attendance for the 1996 Spring Meet.

Record wagering was recorded on 1996 Kentucky Oaks Day, when more than 90,000 fans -- the largest racing crowd ever in North America outside of Kentucky Derby Day -- were at Churchill Downs. More than 142,000 people attended the 1996 Derby, and contributed to the record \$75 million wagered on Derby Day races at Churchill Downs and almost 1,000 domestic and international simulcast sites.

The Company annually holds two live Thoroughbred race meetings at Churchill Downs, a Spring Meet (late April through June) and a Fall Meet (late October to late November). The Company conducted live racing on 78 days during the year ended December 31, 1996. For 1997, the Company has received a license to conduct live racing for a total of 77 racing days on approximately the same dates as the prior year's Spring and Fall race meetings.

Based on average daily purse levels and average number of starters per race, Churchill Downs' 1996 Spring and Fall race meets ranked among the most competitive racing programs in the country. The Company believes that a quality live racing product will enable it to continue the growth in sales of Churchill Downs' race signal to out-of-state simulcast markets.

#### RACETRACK FACILITY

The Company owns its racetrack site and improvements located at or adjacent to 700 Central Avenue, Louisville, Kentucky (the "racetrack facility"). The racetrack facility consists of approximately 157 acres of land with a one-mile oval dirt track, a seven-eighths (7/8) mile turf track, permanent grandstands and a 1,400-stall stable area. The physical plant includes clubhouse and grandstand seating for approximately 48,500 persons, a general admission area, and food and beverage facilities ranging from fast food to full service restaurants. The site also has a saddling paddock, infield accommodations for groups and special events, parking areas for the public, and the Company's office facilities. The backside stable area has sprinkled barns sufficient to accommodate approximately 1,400 horses, and other facilities for backstretch personnel.

The Company has made numerous capital improvements to the racetrack facility during the past ten years in order to better serve its horsemen and patrons. The dirt and turf tracks provide excellent venues for live Thoroughbred racing. The Company's ability to provide stabling facilities and a training track for horses at the racetrack facility is limited, but additional facilities have been developed, as discussed below. The Company's physical plant, including grandstands, restaurant facilities, parking, etc., is fully utilized only on Kentucky Derby weekend or when it hosts the Breeders' Cup Day races.

## CHURCHILL DOWNS SPORTS SPECTRUM

The Company also owns the real property and improvements known as the Churchill Downs Sports Spectrum (the "Louisville Sports Spectrum"), located at 4520 Poplar Level Road, Louisville, Kentucky. Formerly a Standardbred racetrack, this property was acquired by the Company in 1992, and converted into a simulcast wagering facility and Thoroughbred training annex. The Louisville Sports Spectrum is located on approximately 90 acres of land, about seven miles from the Company's racetrack facility.

The grandstand/clubhouse was renovated and converted for use as a simulcast and pari-mutuel wagering facility. Seven separate areas were created within the structure to accommodate the needs of a variety of patrons, from the seasoned player to the novice handicapper. The Louisville Sports Spectrum provides state-of-the-art audio/visual technology, seating for approximately 3,000 persons, parking, offices and related facilities. While the Company still has the option to conduct simulcasting at its racetrack facility, the Company plans to conduct most of its Louisville simulcast operations at the Louisville Sports Spectrum.

The Company has renovated the racetrack portion of the property for use as a Thoroughbred stabling and training annex. As part of the renovation of the facility, the Company converted the former Standardbred track into a three-quarter (3/4) mile dirt track which is used for training Thoroughbreds. The existing barns on the property were demolished, and the Company constructed enough new barns to accommodate approximately 500 horses. The additional stalls and training track provide a year-round base of operation for many horsemen, and have enabled the Company to accommodate new horsemen who desire to race at Churchill Downs.

The Company does not intend to conduct live horse racing at the Louisville Sports Spectrum at this time. The Louisville Sports Spectrum also was used as the site of the Company's Thoroughbred "horses in training" sale in 1996 and 1995.

## LICENSING

Kentucky's racetracks, including the Company, are subject to the licensing and regulation of the Kentucky Racing Commission ("KRC"), which consists of 11 members appointed by the governor of Kentucky. Licenses to conduct live Thoroughbred race meetings and to participate in simulcasting (discussed below) are approved annually by the KRC based upon applications submitted by the racetracks in Kentucky, including the Company. Although to some extent the Company competes with other racetracks in Kentucky for the award of racing dates, the KRC is required by state law to consider and seek to preserve each track's usual and customary live racing dates. Generally, there is no substantial change from year to

year in the racing dates awarded to each track. A substantial change in the allocation of live racing days could impact the Company's operations and earnings.

#### PARI-MUTUEL WAGERING

##### GENERAL

Total wagering (also referred to as "handle") on Churchill Downs' racing product increased from \$351.7 million in 1995 to \$489.1 million in 1996. The most significant growth was experienced in the exportation of its live race signal to out-of-state simulcast markets. The Company believes that both simulcast sending and receiving will continue to be a revenue growth area for Churchill Downs in 1997.

##### INTERTRACK SIMULCASTING

In November 1988, the Company began sending its televised live races ("intertrack simulcasting"), to other locations in Kentucky. Patrons wagering at these locations participate in the same pari-mutuel pool payouts as patrons at Churchill Downs. Since fiscal year 1991, Churchill Downs has conducted intertrack simulcasting in Kentucky as a host track for all of its live racing days except Kentucky Derby Day. Churchill Downs offered the simulcast of its Kentucky Derby Day races to racetracks within the State beginning in 1995.

In 1989, the Company began receiving intertrack simulcast signals from other Kentucky tracks. During the year ended December 31, 1996, Churchill Downs conducted intertrack simulcasting as a receiving track in Kentucky for a total of 200 days. In 1997, Churchill Downs has been licensed as a receiving track for any and all possible dates from January 1, 1997 through December 31, 1997.

##### INTERSTATE SIMULCASTING

The Company participates in interstate simulcasting by sending its Churchill Downs live race signal to racetracks and off-track betting facilities located in other states and in foreign countries. Depending upon the format permitted at each facility, patrons may either participate in the same pari-mutuel pool payouts as those patrons at Churchill Downs, known as a commingled pool, or participate in a separate pari-mutuel pool generated by wagering on Churchill Downs races at the respective facility.

Interstate simulcasting operations increased by 62 percent in Kentucky in 1996, and now represents approximately 60 percent of the Company's pari-mutuel revenue base in Kentucky. Churchill Downs plans to increase the interstate and international exportation of its live race signal in fiscal year 1997.

#### WHOLECARD SIMULCASTING

Churchill Downs also receives simulcasts of live race signals from tracks outside Kentucky and accepts pari-mutuel wagers on such races (referred to as "wholecard simulcasting"). In July 1994, Kentucky authorized licensed racetracks and simulcast wagering facilities located in the state to conduct wholecard simulcasting. Wholecard simulcasting allows the Company to conduct interstate wagering daily on multiple race programs from around the country, permitting maximum use of the Louisville Sports Spectrum asset. In 1996, wholecard simulcasting was conducted for 200 days at the Louisville Sports Spectrum, and on a limited basis during Churchill Downs' live race meets, generating approximately \$127 million in total wagering. Wholecard simulcasting also helps Churchill Downs access new markets for exporting its simulcast race signal by enabling the Company to reciprocate by importing out-of-state simulcast signals.

#### IN-HOME WAGERING

Churchill Downs, in conjunction with On Demand Services and TKR Cable of Greater Louisville, continues to develop its in-home interactive television wagering system, the first such system in the country. Testing of the nation's first in-home system began in July 1995, and has expanded to 675 homes in Jefferson County, Kentucky as of December 31, 1996. The Company believes development of such in-home technology can be used as a tool to attract new segments of the market to the racetrack.

#### KENTUCKY OFF-TRACK BETTING, INC.

As a result of changes made to Kentucky law in 1992, the Company and three other Kentucky Thoroughbred racetracks formed Kentucky Off-Track Betting, Inc. ("KOTB"). The Company is a 25% shareholder in KOTB. KOTB's purpose is to own and operate facilities for the simulcasting of races and the acceptance of wagers on such races at locations other than a racetrack ("simulcast facilities"). A simulcast facility may be located no closer than 75 miles from an existing racetrack without the track's consent and in no event closer than 50 miles to an existing track. Each simulcast facility must first be approved by the KRC. Once approved, the simulcast facility may then be established unless the local government where the facility is to be located votes to disapprove its establishment. KOTB currently owns and operates simulcast facilities in Corbin, Maysville and Jamestown, Kentucky, all of which were opened in 1993, and a simulcast facility in Pineville, Kentucky, which opened in September 1995.

The Company anticipates that simulcast facilities developed by KOTB will provide additional markets for intertrack simulcasting of the Company's live races. By statute, of the amount retained by KOTB on wagers (net of taxes) placed at a simulcast facility on the Company's races, 30% is paid to the Company, 30% is set aside for the Company's horsemen, 6% is

retained by KOTB to cover its operating expenses and 34% is paid to a Breeders Award Fund administered by the KRC. Any KOTB expenses not covered by its 6% are funded by the Company during the period of time KOTB takes the Company's races. In addition, the Company funds its share of annual administrative expenses and may also receive dividends from KOTB. KOTB is not expected to have a significant impact on operations of the Company.

#### C. INDIANA OPERATIONS

##### GENERAL

In Indiana, the Company conducts both Thoroughbred and Standardbred horse races, accepts pari-mutuel wagering on such races and conducts related business operations at Hoosier Park in Anderson, Indiana ("Hoosier Park"). The Company conducts simulcasting operations at Hoosier Park and also at its Churchill Downs Sports Spectrum ("Indiana Sports Spectrums") facilities in Merrillville, Fort Wayne and Indianapolis, Indiana.

##### OWNERSHIP

Hoosier Park is owned by Hoosier Park, L.P. ("HPLP"), an Indiana limited partnership formed in 1994. The Company currently owns a 77% interest in HPLP through Anderson Park, Inc. ("Anderson"). Anderson is a wholly-owned subsidiary of Churchill Downs Management Company ("CDMC"). CDMC is a wholly-owned subsidiary of the Company. The remaining 23% of HPLP is held by unrelated third parties, Pegasus Group, Inc. ("Pegasus"), and Conseco HPLP, L.L.C. ("Conseco"). Anderson is HPLP's sole general partner. CDMC has entered into a management agreement with HPLP pursuant to which CDMC has operational control of the day-to-day affairs of Hoosier Park and its related simulcast operations. The Company, through CDMC, has loaned, and committed to advance, up to 90% of \$28.7 million in loans and capital contributions to HPLP for the development of the racetrack and related satellite wagering facilities. Conseco assumed 10% of the obligation for loans and capital contributions to HPLP upon purchase of their 10% partnership interest. As of December 31, 1996, HPLP has a total loan balance of approximately \$26.0 million. The loan requires interest of prime plus 2% (10.25% at December 31, 1996).

On December 20, 1995, the Company entered into a Partnership Interest Purchase Agreement with Conseco for the sale of 10% of the Company's partnership interest in HPLP to Conseco. This sale was closed on May 31, 1996. The purchase price for the 10% partnership interest was \$218,390 and the transaction also included a payment of \$2,603,514 for a 10% interest in the debt owed by HPLP to CDMC at face value of debt at the date of the closing. Conseco and Pegasus are limited partners of HPLP and Anderson continues to be the sole general partner of HPLP.

From May 31, 1996 through December 31, 1998, Consecro has an option to purchase from Anderson an additional 47% partnership interest in HPLP and an additional 47% interest in the debt owed by HPLP to CDMC. The purchase price of the additional partnership interest will be approximately \$6,222,000 and the purchase price of the additional debt will be approximately \$15,934,000. This purchase would be subject to the approval of the Indiana Horse Racing Commission. If this transaction occurs, Consecro will be the sole general partner of HPLP, and Anderson and Pegasus will be limited partners of HPLP with partnership interests of 30% and 13%, respectively. CDMC would continue to have a long-term management agreement with HPLP pursuant to which CDMC would have operational control of the day-to-day affairs of HPLP and its related simulcast facilities.

#### HOOSIER PARK

##### RACING

Through its subsidiary, Anderson, the Company is majority owner of Indiana's only pari-mutuel racetrack, Hoosier Park in Anderson, Indiana. Hoosier Park conducts both live Standardbred racing (late April to late August) and Thoroughbred racing (mid-September to late November). The Company began live Standardbred racing at Hoosier Park on September 1, 1994, and conducted Indiana's inaugural Thoroughbred meet in the Fall of 1995. In 1996, the Company conducted 132 days of live racing, including 80 days of Standardbred racing and 52 days of Thoroughbred racing. The Company has received a license to conduct live racing in 1997 for a total of 143 racing days, including 85 days of Standardbred racing, and 58 days of Thoroughbred racing.

##### RACETRACK FACILITY

Hoosier Park is located in Anderson, Indiana, about 40 miles northeast of Indianapolis. The Company leases the site under a long-term lease with the city of Anderson and owns the improvements located at or adjacent to 4500 Dan Patch Circle in Anderson, Indiana. The racetrack facility consists of approximately 110 acres of leased land with a seven-eighths (7/8th) mile oval dirt track, permanent grandstands, and a 780-stall stable area. The racetrack surface accommodates both Thoroughbred racing and Standardbred racing. The physical plant includes seating for approximately 2,400 persons, a general admission area, and food and beverage facilities ranging from fast food to full service restaurants. The site also has a saddling paddock, parking areas for the public, and office facilities. The stable area has barns sufficient to accommodate 780 horses, and other facilities for backstretch personnel.



## CHURCHILL DOWNS SPORTS SPECTRUMS

Through its subsidiary, Anderson, the Company is majority owner of three simulcast wagering facilities in Indiana which are branded with the Churchill Downs Sports Spectrum name. These simulcast wagering facilities provide a statewide distribution system for Hoosier Park's racing signal, and additional simulcast markets for Churchill Downs' product. The Sports Spectrum at Merrillville, located about 30 miles southeast of Chicago, consists of approximately 27,300 square feet of space. The Sports Spectrum at Fort Wayne consists of approximately 15,750 square feet of space. Hoosier Park also leases approximately 17,800 square feet of space in the Claypool Courts Building in downtown Indianapolis where it operates the Sports Spectrum at Indianapolis. All three Sports Spectrum facilities were opened in 1995. The license for the fourth Sports Spectrum facility in Jeffersonville, Indiana was surrendered in July 1995 because ownership of the tentative site was in question and resolution was not expected in the near future. The Company is continuing to evaluate sites for the location of a fourth Sports Spectrum facility.

The State of Indiana has enacted legislation which requires a county fiscal body to adopt an ordinance permitting simulcast wagering facilities before such a facility can be located in that county. The county fiscal body may require in the ordinance that the voters of the county must approve the operation of a simulcast wagering facility in that county. This legislation may affect the Company's ability to locate a facility in certain counties.

## LICENSING

In Indiana, licenses to conduct live Standardbred and Thoroughbred race meetings and to participate in simulcasting are approved annually by the Indiana Horse Racing Commission ("IHRC") based upon applications submitted by the Company. Currently, the Company is the only facility in Indiana licensed to conduct live Standardbred or Thoroughbred race meetings and to participate in simulcasting.

## PARI-MUTUEL WAGERING

### GENERAL

In 1996, total wagering at Hoosier Park and the three Sports Spectrum facilities totaled approximately \$176.4 million, an increase of 34 percent over 1995.

## INTERSTATE SIMULCASTING

Hoosier Park participates in interstate simulcasting sending its live race signal to racetracks and off-track betting facilities located in other states and foreign countries. Depending upon the format permitted at each facility, patrons may either participate in the same pari-mutuel

pool payouts as those patrons at Hoosier Park, known as a commingled pool, or participate in a separate pari-mutuel pool generated by wagering on Hoosier Park races at the respective facility.

In 1996, approximately \$27.2 million was wagered on Hoosier Park's race signal at out-of-state locations. Interstate wagering on Hoosier Park's Thoroughbred race meet experienced the most significant growth in 1996. The Company believes that interstate simulcasting will continue to be a revenue growth area for Hoosier Park in 1997.

#### WHOLECARD SIMULCASTING

In Indiana, the Company participates in wholecard simulcasting at Hoosier Park and its Sports Spectrum facilities. Indiana law provides that as long as Hoosier Park conducts live racing for a total of not less than 120 days per year, wholecard simulcasting can be conducted year round at Hoosier Park and each of the Sports Spectrum facilities.

#### D. SOURCES OF INCOME

The Company's principal sources of income are commissions from on-track pari-mutuel wagers, commissions from intertrack and fees from interstate simulcast wagers, admissions and seating, concession commissions (primarily for sale of food and beverages), and license, rights, broadcast and sponsorship fees.

The Company's primary source of income is pari-mutuel wagering which accounts for 70% of revenue. The Company retains the following average amounts on specific revenue streams as a percentage of handle:

	KENTUCKY	INDIANA
On-track pari-mutuel wagers	15%	19%
Intertrack host	9%	--
Interstate/simulcast host	5%	3%
Intertrack/simulcast receiving	7%	18%

The Company's next major source of income is admission and seating revenue, which was 12% of net revenues for the year ended December 31, 1996. Average daily on-track attendance at Churchill Downs has declined since 1989; however, during the same period increases in intertrack and interstate simulcast revenues in Kentucky have substantially offset the related decline in admission and seating revenue. In addition, declines in daily average attendance do not impact upon Churchill Downs' admission and seating revenue proportionately since Churchill Downs receives approximately 50% of its admission and seating revenue from the Kentucky Derby weekend.

The Company holds federal servicemark registrations on the names "Kentucky Derby", "Churchill Downs", "Churchill Downs Sports Spectrum", "Kentucky Oaks" and the Twin Spires design in various categories including entertainment business, apparel, paper goods, printed matter and housewares and glass. The Company licenses the use of the servicemarks and derives revenue from such license agreements; during the year ended December 31, 1996, gross revenue derived from such licensing was less than 6% of total revenues. Hoosier Park has applied for federal servicemark registration of the name "Indiana Derby."

The Company hosted a Thoroughbred "horses in training" sale in 1996 and 1995. These sales did not contribute significantly to operations and a sale is not scheduled in 1997.

#### E. OTHER FACTORS AFFECTING THE COMPANY'S BUSINESS

From 1986 through 1996, the Thoroughbred industry as a whole has seen depressed prices for the sale of Thoroughbreds at all stages of their career. Although prices continue to be significantly below peak prices of the mid-eighties, 1993-1996 sales have shown improvement. There have also been numerous bankruptcies or other financial failures of Thoroughbred farms since the mid-eighties. As a result, the number of Thoroughbred foals born has decreased each year until 1995 which showed a 1.4% increase. This long-term trend has led to an industry-wide decline in the number of Thoroughbreds available to run in races. Racetracks may be competing for horses to participate in live racing and some racetracks now offering live racing may be forced to curtail or eliminate live events and rely more heavily or exclusively on simulcast receiving for revenue. The Company believes that because of the significant Thoroughbred industry infrastructure in the Commonwealth of Kentucky, the Company's live racing product will not be as heavily impacted by the decline in Thoroughbreds. Moreover, the Company is well positioned to provide live racing products to the emerging simulcast market in other states and internationally.

The Company generally does not directly compete with other racetracks or simulcast facilities for patrons due to geographic separation of such facilities. However, the Company competes with other entertainment options for patrons for both live racing and simulcasting. The Company also competes with other sports and other entertainment and wagering options available to consumers including riverboat gaming and lotteries. The Company attempts to attract patrons by providing the highest quality racing products in attractive entertainment facilities with well-priced, appealing concession services. The Company is the premier racetrack in Kentucky for both live racing and simulcasting, based upon total handle and attendance, and the only facility in Indiana providing live and simulcast racing.

The development of riverboat gaming facilities began in Indiana pursuant to authorizing legislation passed by the State of Indiana in 1993. In 1996, there were three riverboats in operation along the Ohio River. By 1998, as many as five Indiana riverboats may be operating along the Ohio River, with one of the nation's largest complexes proposed to be located 10 miles from Louisville in Harrison County, Indiana. Direct competition with three newly opened riverboats have negatively impacted wagering at racetracks in Western and Northern Kentucky. Decreases in intertrack wagering, and to some extent on-track wagering, during Churchill Downs' 1996 Fall Meet was a result of riverboat competition in these

markets. The Company believes that competition from Indiana riverboat gaming facilities will have a negative impact on the Company's operations, which could be material.

In response to the riverboat threat, the Company's Board of Directors passed a resolution at its June 13, 1996 meeting instructing the Company's management to aggressively pursue the operation of video lottery machines through the Kentucky Lottery at its racetrack facilities in Louisville. The integration of such alternative gaming products at the racetrack is one of four core business strategies developed by the Company to grow its live racing program. Management has been positioning the Company to compete in the changing business environment for the past several years by strengthening its flagship operations, increasing its share of the interstate simulcast market, and geographically expanding its racing operations. The Company is currently working to build a consensus within Kentucky's horse industry for a plan to offer alternative gaming products exclusively at state racetracks.

In addition, licenses to conduct riverboat casinos on Lake Michigan near the Company's Merrillville, Indiana, Sports Spectrum facility have been granted by the Indiana Gaming Commission. Indiana law allows up to five riverboat casino licenses to be issued on Lake Michigan. The Potawatomi Indian Tribe has expressed an interest in establishing a land-based casino operation in southwestern Michigan and northeastern Indiana, while the Miami Indian Tribe has expressed an interest in establishing a land-based casino near the Company's Merrillville Sports Spectrum. The Company anticipates that the commencement of such operations will have a negative impact upon the Company's wagering activities, although the extent of the impact is unknown at this time due in part, to the uncertain geographic distances between the Company's operations and the number of potential casino sites.

The Company is pursuing legislative initiatives in both Kentucky and Indiana which would allow alternative gaming operations at its racetrack facilities. Alternative gaming in the form of video lottery and slot machines would enable Churchill Downs and Hoosier Park to effectively compete with Indiana riverboat casinos, and provide new revenue for capital investment and purse money.

In Kentucky, the Company is working to build a consensus within the Commonwealth's horse industry for a plan to operate video lottery terminals exclusively at racetracks in conjunction with the Kentucky Lottery Corporation. Legislation may be included by the Governor in a special session of the Kentucky General Assembly in May 1997, or introduced during the legislature's regular session in 1998.

Indiana House Bill 1799, which would allow for installation of slot machines at Hoosier Park, was introduced during the current legislative session. This bill did not make it out of committee.

The horse industry in Indiana presently receives \$.65 per \$3 admission to riverboats in the state. From the money generated by this tax in 1996, \$1.8 million went directly to Hoosier Park operating expenses, \$2.5 million funded purse increases at the track, and over \$1 million went to breeders' incentives. House Bill 1135, which has already passed the Indiana House of Representatives, seeks to reduce the \$.65 admission tax of which Hoosier Park receives \$.195. Hoosier Park's share of the tax would be reduced to \$.10 from \$.195 per admission. Such a reduction in revenue would significantly impact funding for operating

expenditures and cause the Company to reevaluate its investment in Indiana's pari-mutuel industry. The Company is prohibited from selling its interest in Hoosier Park, L.P., prior to 1998 without the consent of Conseco.

F. ENVIRONMENTAL MATTERS

On January 22, 1992, the Company acquired certain assets of Louisville Downs, Incorporated for \$5,000,000 including the site of the Louisville Sports Spectrum. In conjunction with this purchase, the Company withheld \$1,000,000 from the amount due to the sellers to offset certain costs related to the remediation of environmental contamination associated with underground storage tanks at the site. All of the \$1,000,000 hold back had been utilized as of December 31, 1995. It is not anticipated that the Company will have any liability as a result of compliance with environmental laws with respect to any of the Company's property.

In January 1995, Hoosier Park opened the Churchill Downs Sports Spectrum in Merrillville, Indiana. The 27,300 square foot facility is designed exclusively for the simulcast of horse races and the conducting of pari-mutuel wagering. The Merrillville, Indiana facility is also subject to contamination related to prior business operations adjacent to the property. The contamination on the property is being remediated under the State of Indiana's voluntary remediation program. The State of Indiana approved the remediation plan in May of 1995. The Company has obtained an indemnity concerning the cost of remediation from the prior owner of the property. The cost of remediation could be up to \$50,000. Except as discussed herein and with respect to the Louisville Sports Spectrum, compliance with environmental laws has not affected the ability to develop and operate the Company's properties and the Company is not otherwise subject to any material compliance costs in connection with federal or state environmental laws.

G. EMPLOYEES

Because the Company's live racing business is seasonal, the number of persons employed will vary throughout the year. As of December 31, 1996, approximately 600 individuals are employed on a permanent year-round basis. During the live racing meetings, as many as 2,600 persons are employed.

ITEM 2. PROPERTIES

Information concerning property owned by Churchill Downs Incorporated required by this Item is incorporated by reference to the information contained in Item 1. "Business" of this Report.

The Kentucky Derby Museum is operated on property adjacent to the Company's racetrack facility. The Museum is owned and operated by the Kentucky Derby Museum Corporation, a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business of the Company, to which it is a party or of which any of its property is the subject and no such proceedings are known to be contemplated by governmental authorities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the Company's stockholders during the fourth quarter of the fiscal year covered by this Report.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded in the over-the-counter market. As of March 29, 1993, the Company's common stock was listed on the National Association of Securities Dealers, Inc.'s Small Cap Market automated quotation system ("NASDAQ"). As of March 27, 1997, there were approximately 3,100 stockholders of record.

The following table sets forth the high and low bid quotations (as reported by NASDAQ) and dividend payment information for the Company's Common Stock during its last two years:

	1996 - BY QUARTER				1995 - BY QUARTER			
	1ST	2ND	3RD	4TH	1ST	2ND	3RD	4TH
High Bid	\$40.00	\$44.00	\$37.50	\$36.50	\$47.00	\$46.00	\$43.25	\$38.50
Low Bid	\$32.00	\$36.00	\$34.00	\$34.00	42.50	41.00	35.50	31.00
Dividend per share:								
Annual		\$ .50					\$ .50	
Special		\$ .15					--	

Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not necessarily reflect actual transactions.

The Company presently expects that comparable annual cash dividends (adjusted for any stock splits or other similar transactions) will continue to be paid in the future.

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31, 1996	Year Ended December 31, 1995	Year Ended December 31, 1994	Eleven Months Ended December 31, 1993	Fiscal Year Ended January 31 1993
	-----	-----	-----	-----	-----
Operations:					
Net revenues	\$107,858,818	\$92,434,216	\$66,419,460	\$55,809,889	\$51,847,747
Operating income	\$12,314,897	\$10,305,210	\$ 9,861,086	\$ 8,959,220	\$ 7,427,241
Net earnings	\$8,071,526	\$6,203,135	\$ 6,166,353	\$ 5,906,034	\$ 5,212,610
Net earnings per share	\$2.17	\$1.64	\$1.63	\$1.56	\$1.38
Dividend paid per share					
Annual	\$ .50	\$ .50	\$ .50	\$ .50	\$ .50
Special	\$ .15	-	-	-	-
At Period End:					
Total assets	\$80,728,966	\$77,486,482	\$70,175,840	\$56,819,959	\$49,058,319
Working capital (deficiency)	\$(10,742,606)	\$(10,433,929)	\$(10,131,254)	\$ (776,756)	\$(5,290,858)
Long-term debt	\$2,999,191	\$6,421,176	\$ 8,683,314	\$ 583,090	\$ 594,227
Stockholders' equity	\$47,780,880	\$46,653,157	\$42,003,147	\$36,995,853	\$32,976,784
Stockholders' equity per share	\$13.08	\$12.33	\$11.10	\$9.80	\$8.74
Additions to racing plant and equipment	\$2,570,795	\$8,589,535	\$23,310,204	\$1,409,888	\$6,741,158

In 1993, the Company changed to a calendar year from a fiscal year ending January 31. The change of fiscal year resulted in a transition period of eleven months which began February 1, 1993 and ended December 31, 1993.

CHURCHILL DOWNS INCORPORATED

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

GENERAL INFORMATION

This discussion and analysis contains both historical and forward-looking information. The forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be significantly impacted by certain risks and uncertainties described herein, and in the Company's annual report on Form 10-K for the year ended December 31, 1996.

The Company's principal business is conducting pari-mutuel wagering on Thoroughbred and Standardbred horse races. For many years, the Company has conducted live Spring and Fall race meetings for Thoroughbred horses in Kentucky. In 1988, the Company began in-state simulcasting ("intertrack") of its live races, except those run on Kentucky Derby Day, by sending its video signal to other locations in Kentucky for purposes of pari-mutuel wagering into the Company's mutuel pool. In 1989, the Company commenced operations as a receiving track for intertrack simulcasting. During November 1991, the Company began interstate simulcasting for all of the live races with the receiving locations participating in the Company's mutuel pool. The Kentucky Derby and Kentucky Oaks, which are run on the first weekend in May of each year, continue to be the Company's outstanding attractions. In 1995, for the first time, Churchill Downs offered the simulcast of its races on Kentucky Derby Day to racetracks within Kentucky and continued the practice in 1996. In 1996, Derby weekend accounted for approximately 30% of total on-track pari-mutuel wagering and 35% of total on-track attendance for the 1996 Spring Meet at Churchill Downs. In July 1994, the Company began whole card simulcasting whereby the Company imports a full program or race card from host tracks located outside the state for pari-mutuel wagering purposes. Whole card simulcasting has created a major new wagering opportunity for patrons of the Company in both Kentucky and Indiana.

The Company, through its subsidiary, HPLP, is majority owner and operator of Indiana's only pari-mutuel racetrack, Hoosier Park at Anderson. Hoosier Park conducted two Harness race meets, as well as simulcast wagering, during its first 16 months of operation. During 1995 improvements were made to Hoosier Park for the track's inaugural Thoroughbred meet. From January 1995 through October 1995, the Company opened off-track wagering facilities in Merrillville, Fort Wayne and downtown Indianapolis, Indiana. The license for the fourth facility in Jeffersonville, Indiana was surrendered in July 1995 because ownership of the tentative site was in question and resolution was not expected in the near future. The Company is continuing to evaluate sites for the location of a fourth satellite wagering facility.



CHURCHILL DOWNS INCORPORATED

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The Company's principal sources of income are commissions from on-track pari-mutuel wagers, commissions from intertrack and fees from interstate simulcast wagers, admissions and seating, concession commissions (primarily for the sale of food and beverages), and license, rights, broadcast and sponsorship fees. The Company's primary source of income is pari-mutuel wagering.

In Kentucky, licenses to conduct Thoroughbred race meetings and to participate in simulcasting are approved annually by the Kentucky Racing Commission based upon applications submitted by the racetracks in Kentucky, including the Company. Based on gross figures for on-track pari-mutuel wagering and attendance, the Company is the leading Thoroughbred racetrack in Kentucky. In Kentucky, the Company conducted racing during the period from April 27, 1996, through June 30, 1996, and from October 27, 1996, through November 30, 1996, for a total of 78 racing days. For 1997, the Company has been granted a license to conduct live racing during the period from April 26 through June 29, 1997, and from October 26 through November 29, 1997 for a total of 77 racing days.

In Indiana, licenses to conduct live Standardbred and Thoroughbred race meetings and to participate in simulcasting are approved annually by the Indiana Horse Racing Commission based upon applications submitted by the Company. Currently, the Company is the only facility in Indiana licensed to conduct live Standardbred or Thoroughbred race meetings and to participate in simulcasting. In Indiana, the Company conducted live racing for a total of 132 racing days, including 80 days of Standardbred racing from April 25, 1996 through September 2, 1996, and 52 days of Thoroughbred racing from September 20, 1996 through November 30, 1996. The Company has been granted a license to conduct live racing in 1997 for a total of 140 racing days, including 85 days of Standardbred racing from April 24 through August 24, 1997, and 55 days of Thoroughbred racing from September 12 through November 29, 1997.

CHURCHILL DOWNS INCORPORATED  
 ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
 RESULTS OF OPERATIONS (continued)

The Company operated two live racing facilities and conducted simulcast wagering at four other locations during the year ended December 31, 1996. The Company began its operations in Indiana on September 1, 1994. The chart below summarizes the results of these operations.

	KENTUCKY		Increase/ Decrease	INDIANA		Increase/ Decrease
	Year Ended December 31, 1996	Year Ended December 31, 1995		Year Ended December 31, 1996	Year Ended December 31, 1995	
<b>ON-TRACK</b>						
Number of Race Days	78	74	4	132	146	(14)
Attendance	903,132	927,581	(3)%	168,849	242,139	(30)%
Handle	\$119,897,810	\$123,751,130	(3)%	\$17,530,325	\$24,768,351	(29)%
Average daily attendance	11,579	12,535	(8)%	1,279	1,658	(23)%
Average daily handle	\$1,537,151	\$1,672,313	(8)%	\$132,805	\$169,646	(22)%
Per capita handle	\$132.76	\$133.41	(0)%	\$103.82	\$102.29	1%
<b>INTERTRACK/INTERSTATE HOST (SENDING)*</b>						
Number of Race Days	78	74	4	132	146	(14)
Handle	\$369,245,673	\$227,998,154	62%	\$27,193,841	\$13,727,916	98%
Average daily handle	\$4,733,919	\$3,081,056	54%	\$206,014	\$94,027	119%
<b>INTERTRACK/SIMULCAST RECEIVING</b>						
Number of Receiving Days	200	209	(9)	1,192	821**	371
Attendance	451,708	489,093	(8)%	***	328,509	***
Handle	\$127,047,623	\$119,571,023	6%	\$131,715,597	\$92,745,040	42%
Average daily attendance	2,259	2,340	(3)%	***	400	***
Average daily handle	\$635,238	\$572,110	11%	\$110,500	\$112,966	(2)%
Per capita handle	\$281.26	\$244.48	15%	***	\$282.32	***
<b>Total handle</b>	<b>\$616,191,106</b>	<b>\$471,320,307</b>	<b>31%</b>	<b>\$176,439,763</b>	<b>\$131,241,307</b>	<b>34%</b>

\* Includes common/commingle pools only.

\*\* The Company's Indiana operations include four separate wagering facilities.

\*\*\* Attendance figures are not kept for the separate wagering facilities in Indiana.

CHURCHILL DOWNS INCORPORATED

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

With the advent of whole card simulcasting, the Company conducts interstate simulcasting virtually year-round on multiple racing programs each day from around the nation. The number of receiving days has increased in 1996 when compared to 1995 because of the Indiana off-track wagering facilities being open throughout 1996. During 1995, simulcast wagering was being conducted at Hoosier Park in Anderson, Indiana and beginning January 25, 1995 at Merrillville, Indiana. Two additional simulcast facilities were opened during 1995, one in Ft. Wayne, Indiana on April 25, 1995, and the other in Indianapolis, Indiana in October 25, 1995. Simulcast wagering was conducted at all four facilities throughout the year ended December 31, 1996. For 1997, the Company has been granted a license to operate simulcast receiving locations in Kentucky and Indiana for any and all possible dates from January 1 through December 31 and intends to receive simulcasting on all possible days. Hoosier Park may ultimately be supported by a fourth whole card simulcasting facility. An increase in the number of days or facilities would be expected to enhance operating results.

Because the business of the Company is seasonal, the number of persons employed will vary throughout the year. Approximately 600 individuals are employed on a permanent year-round basis. During the live race meetings, as many as 2,600 persons are employed.

In 1996, there were four riverboats in operation along the Ohio River, three in Indiana and one at Metropolis, Illinois. By 1998, as many as five Indiana riverboats may be operating along the Ohio River, with one of the nation's largest complexes proposed to be located 10 miles from Louisville in Harrison County, Indiana. Direct competition with three newly opened riverboats has negatively impacted wagering at racetracks in Western and Northern Kentucky. Decreases in intertrack wagering, and to some extent on-track wagering, during Churchill Downs' 1996 Fall Meet were the result of riverboat competition in these markets. The Company believes that competition from Indiana riverboat gaming facilities will have a negative impact on the Company's operations, which could be material.

In addition, licenses allowing up to five riverboat casinos on Lake Michigan near the Company's Merrillville, Indiana, Sports Spectrum facility have been granted by the Indiana Gaming Commission. The Potawatomi Indian Tribe has expressed an interest in establishing a land-based casino operation in southwestern Michigan and northeastern Indiana, while the Miami Indian Tribe has expressed an interest in establishing a land-based casino near the Company's Merrillville Sports Spectrum. The Company anticipates that the commencement of such operations will have a negative impact upon the Company's wagering activities. The extent of the impact is unknown at this time due, in part, to the uncertain geographic distances between the Company's operations and the number of potential casino sites.

CHURCHILL DOWNS INCORPORATED  
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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Studies project that direct competition with these boats could result in as much as a 30% decline in on-track wagering at Churchill Downs and a 20% decline in Sports Spectrum business. In response, the Company's Board of Directors passed a resolution at its June 13, 1996 meeting instructing the Company's management to aggressively pursue alternative forms of gaming at its racetrack facilities in Louisville. The integration of alternative gaming products at the racetrack is one of four core business strategies developed by the Company to grow its live racing program. Management has been positioning the Company to compete in this changing environment for the past several years by strengthening its flagship operations, increasing its share of the interstate simulcast market, and geographically expanding its racing operations into Indiana.

The Company is pursuing legislative initiatives in both Kentucky and Indiana which would allow alternative gaming operations at its racetrack facilities. Alternative gaming in the form of video lottery and slot machines would enable Churchill Downs and Hoosier Park to effectively compete with Indiana riverboat casinos, and provide new revenue for capital investment and purse money.

COMPARISON OF YEAR ENDED DECEMBER 31, 1996 TO 1995

REVENUES

Net revenue during the year ended December 31, 1996 increased \$15.4 million to \$107.9 million. Kentucky operations contributed 37%, or \$5.7 million to the total increase, with Interstate-Host showing the largest increase at \$3.1 million. Interstate-Host represents revenues generated by transmitting the Company's live races at Churchill Downs outside the state of Kentucky to outlets across the nation. The number of outlets receiving Churchill Downs' live race signal increased from 844 in 1995 to 996 in 1996.

Indiana operations contributed \$9.7 million, or 63%, to the revenue increase. All of the Indiana wagering facilities were fully operational in 1996 which led to a \$6.8 million increase in Simulcast Receiving revenues. In 1995, not all of the off-track facilities were open for the full reporting period. On-track revenue decreased at Hoosier Park by \$2.0 million when compared to 1995 due to the Standardbred live racing meet starting three weeks later and having one less race day per week in 1996. The Thoroughbred race meet started one month later in 1996 but gained 10 racing days. The net effect of the date changes caused a loss of 14 on track racing days. Net revenue also increased by \$4.8 million in 1996 due to riverboat admissions taxes from Indiana riverboat gaming. In accordance with riverboat casino legislation, a riverboat admissions tax is assessed at three dollars per person, of which 65 cents is utilized to supplement the horse racing industry in Indiana. As determined by the Indiana Horse Racing Commission, 20%, or 13 cents, of the 65 cent supplement goes directly to Breed Development Funds and does not directly impact the Partnership. The remaining balance of the supplement (52 cents) is distributed, 30%, or 19.5 cents to the

CHURCHILL DOWNS INCORPORATED  
 ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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Partnership, 40% or 26 cents, is restricted for use as additional racing purses and 10%, or 6.5 cents, is restricted for promotional expenses.

House Bill 1135, which has already passed the Indiana House of Representatives, seeks to reduce the \$.65 admission tax of which Hoosier Park receives \$.25. Hoosier Park's share of the tax would be reduced to \$.10 from \$.25 per admission. Such a reduction in revenue would significantly impact funding for capital improvements and operating expenditures and cause the Company to reevaluate its investment in Indiana's pari-mutuel industry. The Company is prohibited from selling its interest in Hoosier Park, L.P., prior to 1998 without the consent of Conseco.

Following is a summary of Revenues:

	NET REVENUE SUMMARY					
	Year Ended December 31, 1996	% To Total Revenue	Year Ended December 31, 1995	% To Total Revenue	1996 VS. 1995 \$ Change	1995 % Change
Pari-Mutuel Revenue						
On-track	19,240,040	18%	21,438,916	23%	(2,198,876)	(10)%
Intertrack-Host	6,875,000	6%	6,451,715	7%	423,285	7%
Simulcast Receiving	37,806,475	35%	29,527,957	32%	8,278,518	28%
Interstate-Host	11,794,254	11%	8,283,602	9%	3,510,652	42%
	-----	-----	-----	-----	-----	-----
	\$75,715,769	70%	\$65,702,190	71%	\$10,013,579	15%
Admission, Seat and Parking Revenue	12,905,298	12%	12,883,829	14%	21,469	-
License, Rights, Broadcast & Sponsorship Fees	5,921,797	6%	5,642,092	6%	279,705	5%
Concession Commission	2,559,734	2%	2,610,658	3%	(50,924)	(2)%
Program Revenue	3,128,491	3%	2,931,315	3%	197,176	7%
Riverboat Admissions Revenue	4,809,483	4%	-	-	4,809,483	100%
Derby Expansion Area	1,128,270	1%	987,440	1%	140,830	14%
Other	1,689,976	2%	1,676,692	2%	13,284	1%
	-----	-----	-----	-----	-----	-----
	\$107,858,818	100%	\$92,434,216	100%	\$15,424,602	17%
	=====	=====	=====	=====	=====	=====

CHURCHILL DOWNS INCORPORATED

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

OPERATING EXPENSES

Operating expenses increased \$13.0 million during the twelve month period. Gross profit remained relatively flat, decreasing from 20.2% to 19.5% through December 31, 1996. Changes in specific expense categories follow.

Purse expense increased \$6.8 million in 1996 when compared to 1995. In Kentucky and Indiana, purse expense varies directly with pari-mutuel revenues and is calculated as a percentage of the related revenue and may change from year to year pursuant to contract or statute. Simulcast Receiving in Indiana produced a \$2.0 million increase in purse expense as a result of the increased number receiving locations in operation. Both Kentucky and Indiana handle increases in Simulcast Host led to a combined \$2.0 million increase in purse expense. Riverboat Admissions Revenues in Indiana designated to purses contributed \$2.5 million to the increase.

Wages and Contract Labor decreased from 22% of total operating expenses in 1995 to 20% in 1996 despite increases of \$1.3 million primarily due to staff expansion in Kentucky and meet related payroll increases. Churchill Downs conducted four extra racing days in 1996 and the Churchill Downs Sports Spectrum was open on Kentucky Derby weekend, which in the past had been closed on both days.

The increase of approximately \$800,000 in Advertising, Marketing and Publicity is due largely to the marketing of the satellite wagering facilities in Indiana. Approximately \$150,000 was spent in each of the Ft. Wayne and Anderson, Indiana areas as part of an intensive marketing campaign in Indiana. In Kentucky, new marketing programs such as Twin Spires Club and Winners Circle Sponsorship, along with expenses incurred in conjunction with ESPN's Derby Week coverage, caused increases during the twelve month period.

Totalisator and Simulcast Host Fee expenses increased approximately \$410,000 and \$1.7 million respectively. Totalisator expenses are based on total wagers taken at the facilities while Simulcast Host Fees are paid to the track whose live races are being simulcast at the facilities. As total wagers increase, these expenses, along with purses, increase accordingly.

Program expenses increased approximately \$430,000 in 1996. This is attributed to higher paper costs in Kentucky, the addition of the third Indiana satellite wagering facility.

Increases in Depreciation and Amortization are related to the Thoroughbred improvements at Hoosier Park and depreciation on the Ft. Wayne property for a full year. Insurance, Taxes and License Fees decreased approximately \$300,000 as a new property insurance carrier was selected and general liability rates declined.

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 ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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Facility rent increased approximately \$840,000 due to lease expense on the Indianapolis, Indiana off-track wagering facility operating for a full year in 1996.

Other Expense decreased slightly in 1996. Manure Removal is the largest component of this category with expenses of approximately \$620,000. Expenses related to the Kentucky Off-Track Betting facilities were approximately \$580,000.

Following is a summary of Operating Expenses:

	OPERATING EXPENSE SUMMARY				1996 VS. 1995	
	Year Ended December 31, 1996	% To Total Expense	Year Ended December 31, 1995	% To Total Expense	\$ Change	% Change
	-----	-----	-----	-----	-----	-----
Purses						
On-track	\$10,524,969	12%	\$11,570,597	16%	\$(1,045,628)	(9)%
Intertrack-Host	3,191,279	4%	2,882,097	4%	309,182	11%
Simulcast-Receiving	11,925,265	14%	8,992,067	12%	2,933,198	33%
Interstate-Host	6,280,418	7%	4,206,721	6%	2,073,697	49%
Riverboat	2,517,212	3%	-	-	2,517,212	100%
	-----		-----		-----	-----
	\$34,439,143	40%	\$27,651,482	38%	\$6,787,661	25%
Wages and Contract Labor	17,161,141	20%	15,897,434	22%	1,263,707	8%
Advertising, Marketing & Publicity	3,969,087	5%	3,166,951	4%	802,136	25%
Racing Relations & Services	1,803,256	2%	1,623,518	2%	179,738	11%
Totalisator Expense	1,506,146	2%	1,092,718	1%	413,428	38%
Simulcast Host Fee	7,286,133	8%	5,561,467	7%	1,724,666	31%
Audio, Video and Signal Distribution Expense	1,725,585	2%	1,505,310	2%	220,275	15%
Program Expense	2,463,441	3%	2,035,447	3%	427,994	21%
Depreciation & Amortization	4,814,113	5%	4,427,492	6%	386,621	9%
Insurance, Taxes & License Fees	2,620,902	3%	2,918,327	4%	(297,425)	(10)%
Maintenance	1,875,191	2%	1,882,997	3%	(7,806)	-
Utilities	2,840,312	3%	2,511,310	3%	329,002	13%
Derby Expansion Area	436,323	1%	404,478	1%	31,845	8%
Facility Rent	842,930	1%	-	-	842,930	100%
Other	3,011,515	3%	3,089,551	4%	(78,036)	(3)%
	-----		-----		-----	-----
	\$86,795,218	100%	\$73,768,482	100%	\$13,026,736	18%
	=====		=====		=====	=====

CHURCHILL DOWNS INCORPORATED  
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS (continued)

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, General and Administrative Expenses totaled \$8.7 million in 1996 which represents an increase of \$388,000, or 4.6%, over 1995. Higher equipment lease expenses and development costs related to legislative initiatives were partially offset by reduced spending on other development projects.

OTHER INCOME AND EXPENSE

Interest expense was reduced approximately \$235,000 as positive cash flow from operations has allowed the Company to pay down its line of credit. Interest income increased \$160,000 in 1996 as additional cash was available for short-term investing.

COMPARISON OF YEAR ENDED DECEMBER 31, 1995 TO 1994

REVENUES

Pari-mutuel revenue during the twelve months ended December 31, 1995 increased \$23,674,752. The Company's subsidiary Hoosier Park generated 74 percent, or \$17,321,012, of the increase in pari-mutuel revenue which when combined with admissions, concessions, programs, and other revenue totaled \$18,783,355 in revenues. This revenue increase is due largely to the 821 operating days of whole card simulcasting offered beginning January 1, 1995 at Hoosier Park, January 25 in Merrillville, Indiana, April 26 in Ft. Wayne, Indiana and October 25 in Indianapolis, Indiana. Simulcasting has been well received in Indiana with an average daily handle of \$112,966.

The advent of whole card simulcasting helped increase simulcast receiving revenue by \$2,881,470 in the Commonwealth of Kentucky, with Simulcast Host revenue increasing by \$1,860,632 due largely to marketing of the Churchill Downs live racing product to a record number of interstate simulcast outlets. Whole card simulcasting was also largely responsible for the increase in program revenue due to two or more programs and racing forms being sold per day. License and rights revenues were up 12% or \$610,000 primarily due to increased race sponsorships and souvenir licensing at Churchill Downs. Revenues from the Derby Expansion Area, referred to as Marquee Village, were up 19% largely due to the addition of a covered seating area near the racetrack's first turn. The backside of the Churchill Downs racetrack facility was closed during the first quarter of 1994 for maintenance and repair for the first time in several years which reduced other revenue. Other revenue was higher in 1994 primarily due to hosting the Breeders' Cup Day Event.

Following is a summary of Revenues:



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 ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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	NET REVENUE SUMMARY					
	Year Ended December 31, 1995	% To Total Revenue	Year Ended December 31, 1994	% To Total Revenue	1995 VS. 1994 \$ Change	1994 % Change
	-----	-----	-----	-----	-----	-----
Pari-Mutuel Revenue						
On-track	21,438,916	23%	\$21,200,811	32%	\$ 238,105	1%
Intertrack-Host	6,451,715	7%	5,449,807	8%	1,001,908	18%
Simulcast Receiving	29,527,957	32%	8,953,850	13%	20,574,107	230%
Interstate-Host	8,283,602	9%	6,422,970	10%	1,860,632	29%
	-----	-----	-----	-----	-----	-----
	\$65,702,190	71%	\$42,027,438	63%	\$23,674,752	56%
Admission & Seat Revenue	12,243,245	13%	11,889,845	18%	353,400	3%
License, Rights, Broadcast & Sponsorship Fees	5,642,092	6%	5,032,565	8%	609,527	12%
Concession Commission	2,610,658	3%	2,172,914	3%	437,744	20%
Program Revenue	2,931,315	3%	1,755,546	3%	1,175,769	67%
Derby Expansion Area	987,440	1%	832,050	1%	155,390	19%
Other	2,317,276	3%	2,709,102	4%	( 391,826)	(14)%
	-----	-----	-----	-----	-----	-----
	\$92,434,216	100%	\$66,419,460	100%	\$26,014,756	39%
	=====	=====	=====	=====	=====	=====

CHURCHILL DOWNS INCORPORATED  
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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OPERATING EXPENSES

Operating expenses increased \$24,431,384 during the twelve month period. This increase is primarily due to the live and simulcasting operations at Hoosier Park combined with the opening of the Indiana off-track wagering facilities. The largest single increase in meet expenses are the higher purses which are a direct result of increased handle from whole card simulcasting in Kentucky and Indiana. Purse expense varies directly with pari-mutuel revenues and is calculated as a percentage of the related handle revenue and may change from year to year pursuant to contract or statute. Whole card simulcasting and Hoosier Park operations were also primarily responsible for increased wages, advertising and marketing, audio, video, totalisator, program expenses and other. Wages and contract labor increased due to additional days and hours of operation related to whole card simulcasting at Sports Spectrum and Hoosier Park. The simulcast host fee is the amount paid to the host track in exchange for receiving the tracks' races. This expense is based on handle, and is directly related to the \$18 million increase in simulcasting revenue.

Depreciation and amortization increases are attributed to the addition of the Indiana facilities of which 77%, or \$921,909 of the total expense is related to Hoosier Park. Indiana operations contributed 84%, or \$782,200 to the total increase in utilities and 55%, or \$537,225 to insurance, taxes and license fees.

Following is a summary of Operating Expenses:

CHURCHILL DOWNS INCORPORATED  
 ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
 RESULTS OF OPERATIONS (continued)

	OPERATING EXPENSE SUMMARY					
	Year Ended December 31, 1995	% To Total Expense	Year Ended December 31, 1994	% To Total Expense	1995 VS. 1994 \$ Change	1994 % Change
	-----	-----	-----	-----	-----	-----
Purses						
On-track	11,570,597	16%	\$11,138,607	22%	\$431,990	4%
Intertrack-Host	2,882,097	4%	2,430,083	5%	452,014	19%
Simulcast-Receiving	8,992,067	12%	3,914,124	8%	5,077,943	130%
Interstate-Host	4,206,721	6%	2,939,360	6%	1,267,361	43%
	-----	-----	-----	-----	-----	-----
	\$27,651,482	38%	20,422,174	41%	\$7,229,308	35%
Wages and Contract Labor	15,897,434	22%	10,777,468	22%	5,119,966	48%
Advertising, Marketing & Publicity	3,166,951	4%	2,114,020	4%	1,052,931	50%
Racing Relations & Services	1,623,518	2%	1,325,424	3%	298,094	22%
Totalisator Expense	1,092,718	1%	577,101	1%	515,617	89%
Simulcast Host Fee	5,561,467	7%	509,811	1%	5,051,656	991%
Audio/Video Expense	1,505,310	2%	1,261,894	3%	243,416	19%
Program Expense	2,035,447	3%	998,074	2%	1,037,373	104%
Depreciation & Amortization	4,427,492	6%	3,230,432	7%	1,197,060	37%
Insurance, Taxes & License Fees	2,918,327	4%	1,947,686	4%	970,641	50%
Maintenance	1,882,997	3%	1,645,094	3%	237,903	14%
Utilities	2,511,310	3%	1,580,273	3%	931,037	59%
Derby Expansion Area	404,478	1%	313,920	1%	90,558	29%
Other	3,089,551	4%	2,633,727	5%	455,824	17%
	-----	-----	-----	-----	-----	-----
	\$73,768,482	100%	\$49,337,098	100%	\$24,431,384	50%
	=====	=====	=====	=====	=====	=====

CHURCHILL DOWNS INCORPORATED  
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS (continued)

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by \$1,139,248. The increase was primarily related to increases in wages and benefits of \$506,491 and professional fees of \$404,083, most of which were related to Indiana operations.

OTHER INCOME AND EXPENSE

Interest expense increased by \$397,245 largely due to the borrowings necessary to fund the construction of three satellite wagering facilities and Thoroughbred improvements in Indiana. Interest income was lower due to less cash available for short-term investment.

SIGNIFICANT CHANGES IN THE BALANCE SHEET DECEMBER 31, 1996 TO DECEMBER 31, 1995

The cash balances at December 31, 1996 were \$2.4 million higher than December 31, 1995 due primarily to declining cash requirements from the Company's Indiana operations. In 1995 the Company opened satellite wagering facilities and made improvements for the inaugural Indiana Thoroughbred horse meet in Indiana.

Accounts receivable at December 31, 1996 were \$3.1 million higher than December 31, 1995 due primarily to the Indiana Riverboat Admission tax which had not been received as of December 31, 1996. The first riverboat opened in December 1995.

Plant & equipment increased by \$2.5 million as a result of routine capital spending throughout the Company, offset by \$4.0 million of depreciation expense.

Accounts payable and accrued expenses have increased by \$3.5 million mostly due to increases in purses payable related to the increase in simulcast revenue.

Income taxes payable increased \$1.5 million at December 31, 1996 relate to the estimated expense due for the twelve month period, less any estimated tax payments. The increase in earnings has resulted in a corresponding increase in income taxes payable.

Notes payable were \$3.4 million lower at December 31, 1996 as positive cash flow has allowed the Company to eliminate its outstanding bank debt.

Dividends payable increased by \$500,000 due to the special dividend declaration in 1996.

CHURCHILL DOWNS INCORPORATED

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

On May 7, 1996 the Company purchased 58,650 shares of common stock at a total cost of \$2,346,001. On August 2, 1996 the Company issued 3,909 shares of its common stock to employees under its Stock Purchase Plan for total proceeds of \$112,970. Additionally, on September 27, 1996 the Company purchased 75,600 shares of common stock at a total cost of \$2,608,192. These purchases had a positive effect on earnings per share, adding \$.03 to earnings per share for the year ended December 31, 1996.

SIGNIFICANT CHANGES IN THE BALANCE SHEET DECEMBER 31, 1995 TO DECEMBER 31, 1994

The increase in cash and cash equivalents in 1995 is the result of declining cash requirements from the Company's Indiana operations. In 1994 the Company was preparing to open satellite wagering facilities in Merrillville and Fort Wayne, Indiana.

Racing plant and equipment increased by \$7,913,762 during 1995. The Company's Indiana operations received \$6,468,000 of these additions, primarily in the form of three satellite wagering facilities in the state and three million dollars in improvements at Hoosier Park that were necessary for the Thoroughbred race meet.

Accounts payable and accrued expenses have increased by \$2,913,430 mostly due to increases in purses payable related to the increase in simulcast revenue, and due to the normal increase in operating payables related to three additional simulcast facilities in Indiana. The increase in income taxes payable is due to the timing of the Company's fourth quarter payments which were made in January for 1995, versus December in 1994.

Notes payable have decreased as the Company continues to retire debt incurred with the acquisition and construction of its Indiana operations. Outstanding mutual tickets have increased in relation to the increase in business due to whole card simulcasting in Kentucky and the opening of the three additional simulcast wagering facilities in Indiana.

CHURCHILL DOWNS INCORPORATED  
 ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
 RESULTS OF OPERATIONS (continued)

LIQUIDITY AND CAPITAL RESOURCES

Working capital as of December 31, 1996, 1995 and 1994 follows:

	1996 -----	1995 -----	1994 -----
Deficiency in working capital	\$(10,742,606)	\$(10,433,929)	\$(10,131,254)
Working Capital ratio	.57 to 1	.45 to 1	.35 to 1

The working capital deficiency results from the nature and seasonality of the Company's business. Cash flows from operations were \$15,079,531, \$16,540,123 and \$11,399,973 for the years ended December 31, 1996, 1995 and 1994, respectively. Management believes cash flows from operations during 1997 and funds available under the Company's unsecured line of credit will be sufficient to fund dividend payments and additions and improvements to the plant and equipment.

During 1994 cash flow from operations funded \$850,000 of the Anderson Park, Inc. stock purchase in January 1994. Similarly, cash flow from operations and, as necessary, funds available under the unsecured line of credit were used to fund up to \$14 million for construction of the Hoosier Park racing facility in Anderson, Indiana. In 1995, Churchill Downs also funded an additional \$6.5 million to construct three satellite wagering facilities in Indiana and improvements which allowed for Thoroughbred racing at Hoosier Park.

The Company has a \$20,000,000 unsecured line-of-credit all of which is available at December 31, 1996 to meet working capital and other short-term requirements. Management believes that the Company has the ability to obtain additional long-term financing should the need arise.

CHURCHILL DOWNS INCORPORATED

ITEM 7.           MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS (continued)

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation". This Statement requires that the Company's financial statements include certain disclosures about stock-based employee compensation arrangements in accordance with a fair value based method of accounting. The footnotes to the financial statements contain the required disclosures.

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128). SFAS 128 is designed to improve the EPS information provided in financial statements by simplifying the existing computational guidelines. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997. The Company does not expect adoption of this standard will have a material impact on its financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors  
Churchill Downs Incorporated

We have audited the accompanying consolidated balance sheets of Churchill Downs Incorporated and subsidiaries as of December 31, 1996, 1995 and 1994 and the related consolidated statements of earnings, stockholders' equity and cash flows, and the consolidated financial statement schedule, for each of the three years then ended as listed in Item 14 of this Form 10-K. These consolidated financial statements and financial statement schedule are the responsibility of management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Churchill Downs Incorporated and subsidiaries as of December 31, 1996, 1995 and 1994 and the results of their operations and cash flows for each of the three years then ended in conformity with generally accepted accounting principles. In addition, in our opinion, the consolidated financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects, the information required to be included therein for the years ended December 31, 1996, 1995 and 1994.

/S/COOPERS & LYBRAND L.L.P.  
Coopers & Lybrand L.L.P.

Louisville, Kentucky  
March 7, 1997



CHURCHILL DOWNS INCORPORATED  
CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 1996	December 31, 1995	December 31, 1994
	-----	-----	-----
Current assets:			
Cash and cash equivalents	\$8,209,414	\$ 5,856,188	\$ 2,521,033
Accounts receivable	5,218,236	2,098,901	2,277,218
Other current assets	679,221	549,820	741,560
	-----	-----	-----
Total current assets	14,106,871	8,504,909	5,539,811
Other assets	3,739,906	4,632,044	5,058,524
Plant and equipment	100,025,412	97,451,463	89,537,701
Less accumulated depreciation	(37,143,223)	(33,101,934)	(29,960,196)
	-----	-----	-----
	62,882,189	64,349,529	59,577,505
	-----	-----	-----
	\$80,728,966	\$77,486,482	\$70,175,840
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$7,575,573	\$6,517,508	\$4,567,292
Accrued expenses	5,802,330	3,310,882	2,347,668
Dividends payable	2,375,271	1,892,302	1,891,759
Income taxes payable	2,510,508	1,049,508	-
Deferred revenue	6,511,902	6,098,541	6,142,111
Long-term debt, current portion	73,893	70,097	722,235
	-----	-----	-----
Total current liabilities	24,849,477	18,938,838	15,671,065
Long-term debt, due after one year	2,925,298	6,351,079	7,961,079
Outstanding mutuel tickets (payable after one year)	2,031,500	2,256,696	1,523,600
Deferred compensation	825,211	871,212	690,178
Deferred income taxes	2,316,600	2,415,500	2,248,000
Minority interest in equity of consolidated subsidiary	-	-	78,771
Stockholders' equity:			
Preferred stock, no par value; authorized, 250,000 shares; issued, none			
Common stock, no par value; authorized, 10,000,000 shares, issued 3,654,264 shares 1996, 3,784,605 shares, 1995 and 3,783,318 shares, 1994	3,493,042	3,504,388	3,437,911
Retained earnings	44,352,838	43,486,460	39,175,627
Deferred compensation costs	--	(272,691)	(545,391)
Note receivable for common stock	(65,000)	(65,000)	(65,000)
	-----	-----	-----
	47,780,880	46,653,157	42,003,147
	-----	-----	-----
	\$80,728,966	\$77,486,482	\$70,175,840
	=====	=====	=====

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

CHURCHILL DOWNS INCORPORATED  
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31, 1996	Year Ended December 31, 1995	Year Ended December 31, 1994
	-----	-----	-----
Net revenues	\$107,858,818	\$92,434,216	\$66,419,460
Operating expenses:			
Purses	34,439,143	27,651,482	20,422,174
Other direct expenses	52,356,075	46,117,000	28,914,924
	-----	-----	-----
	86,795,218	73,768,482	49,337,098
	-----	-----	-----
Gross profit	21,063,600	18,665,734	17,082,362
Selling, general and administrative	8,748,703	8,360,524	7,221,276
	-----	-----	-----
Operating income	12,314,897	10,305,210	9,861,086
	-----	-----	-----
Other income (expense):			
Interest income	390,669	233,556	292,115
Interest expense	(337,438)	(572,779)	(175,534)
Miscellaneous income	673,398	288,148	174,386
	-----	-----	-----
	726,629	(51,075)	290,967
	-----	-----	-----
Earnings before income taxes	13,041,526	10,254,135	10,152,053
Provision for income taxes	4,970,000	4,051,000	3,985,700
	-----	-----	-----
Net earnings	\$ 8,071,526	\$ 6,203,135	\$ 6,166,353
	=====	=====	=====
Net earnings per share (based on weighted average shares outstanding of 3,724,557, 3,784,140 and 3,778,350, respectively)	\$2.17	\$1.64	\$1.63
	=====	=====	=====

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

CHURCHILL DOWNS INCORPORATED  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended December 31, 1996, 1995 and 1994

	Common Shares	Stock Amount	Retained Earnings	Note Receivable for Common Stock	Deferred Compensation Costs	Total
	-----	-----	-----	-----	-----	-----
Balances December 31, 1993	3,773,930	\$2,977,911	\$34,901,033	\$ (65,000)	\$ (818,091)	\$36,995,853
Net earnings			6,166,353			6,166,353
Deferred compensation amortization					272,700	272,700
Cash dividends, \$.50 per share			(1,891,759)			(1,891,759)
Issuance of common stock at \$49.00 per share	9,388	460,000				460,000
	-----	-----	-----	-----	-----	-----
Balances December 31, 1994	3,783,318	3,437,911	39,175,627	(65,000)	(545,391)	42,003,147
Net earnings			6,203,135			6,203,135
Deferred Compensation amortization					272,700	272,700
Issuance of common stock at \$51.65 per share	1,287	66,477				66,477
Cash dividends, \$.50 per share			(1,892,302)			(1,892,302)
	-----	-----	-----	-----	-----	-----
Balances December 31, 1995	3,784,605	3,504,388	43,486,460	(65,000)	(272,691)	46,653,157
Net earnings			8,071,526			8,071,526
Deferred compensation amortization					272,691	272,691
Issuance of common stock at \$28.90 per share	3,909	112,970				112,970
Repurchase of common stock	(134,250)	(124,316)	(4,829,877)			(4,954,193)
Cash dividends, \$.65 per share			(2,375,271)			(2,375,271)
	-----	-----	-----	-----	-----	-----
Balances December 31, 1996	3,654,264	\$3,493,042	\$44,352,838	\$ (65,000)	-	\$47,780,880
	=====	=====	=====	=====	=====	=====

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

CHURCHILL DOWNS INCORPORATED  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 1996 -----	Year Ended December 31, 1995 -----	Year Ended December 31, 1994 -----
Cash flows from operating activities:			
Net earnings	\$8,071,526	\$6,203,135	\$6,166,353
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	4,814,114	4,506,427	3,327,731
Deferred income taxes	( 461,000)	167,500	129,000
Deferred compensation	226,690	142,534	640,712
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(3,119,335)	178,317	1,438,984
Other current assets	232,699	191,740	(44,526)
Income taxes payable	1,461,000	1,049,508	(1,492,740)
Deferred revenue	413,361	(43,570)	(1,992,626)
Accounts payable, accrued expenses and other	3,440,476	4,144,532	3,227,085
Net cash provided by operating activities	15,079,531	16,540,123	11,399,973
Cash flows from investing activities:			
Additions to plant and equipment, net	(2,570,795)	(8,589,535)	(23,310,204)
Acquisition of Anderson Park, Inc. net of note payable of \$1,100,000	-	-	(850,000)
Additions to intangible assets	-	(461,536)	(1,248,905)
Net cash used in investing activities	(2,570,795)	(9,051,071)	(25,409,109)
Cash flows from financing activities:			
Increase (decrease) in long-term debt, net	(3,421,985)	(2,262,138)	7,299,418
Dividends paid	(1,892,302)	(1,891,759)	(1,886,965)
Common stock issued	112,970	-	-
Common stock repurchased	(4,954,193)	-	-
Net cash used in financing activities	(10,155,510)	(4,153,897)	5,412,453
Net increase (decrease) in cash and cash equivalents	2,353,226	3,335,155	(8,596,683)
Cash and cash equivalents, beginning of period	5,856,188	2,521,033	11,117,716
Cash and cash equivalents, end of period	\$8,209,414 =====	\$5,856,188 =====	\$ 2,521,033 =====
Supplemental disclosures of cash flow information: Cash paid during the period for:			
Interest	\$277,149	\$ 485,908	\$ 102,626
Income taxes	\$3,970,000	\$ 2,790,000	\$ 5,393,000

Noncash investing and financing activities:

During 1994, \$460,000 of notes payable was paid by the issuance of common stock.

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

CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION:

Churchill Downs Incorporated (the "Company") conducts Spring and Fall live race meetings for Thoroughbred horses and participates in intertrack and interstate simulcast wagering as a host track and as a receiving track in Kentucky. In Indiana, the Company, through its subsidiary, Hoosier Park L.P. (Hoosier Park), conducts live Thoroughbred and Standardbred race meetings and participates in simulcast wagering. Both its Kentucky and Indiana operations are subject to regulation by the racing commissions of the respective states.

The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, Churchill Downs Management Company and Anderson Park Inc. and its majority owned subsidiary, Hoosier Park, L.P. All significant intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOLLOWS:

CASH EQUIVALENTS:

The Company considers investments with original maturities of three months or less to be cash equivalents. The Company has, from time to time, cash in the bank in excess of federally insured limits.

PLANT AND EQUIPMENT:

Plant and equipment are recorded at cost. Depreciation is provided by accelerated and straight-line methods over the estimated useful lives of the related assets.

DEFERRED REVENUE:

Deferred revenue includes advance sales of tickets.

CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:  
(cont'd)

OTHER ASSETS:

Amortization on a racing license is provided over forty years using the straight-line method. Organizational costs and preopening costs are amortized over 24 months. Amortization expense was \$775,979, \$688,916 and \$264,753 for the years ended December 31, 1996, 1995 and 1994.

STOCK-BASED COMPENSATION:

The Company accounts for stock based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". In accordance with Statement of Financial Accounting Standards No. 123 (SFAS 123) "Accounting for Stock-based Compensation" proforma disclosure of net income and earnings per share are presented in Note 7 as if SFAS 123 had been applied.

RECLASSIFICATION:

Certain prior year accounts have been reclassified to conform to the current year presentation.

EARNINGS PER SHARE:

Earnings per share has been computed by dividing net earnings by the weighted average number of common shares and equivalents outstanding. Common share equivalents included in the computation represent shares issuable upon assumed exercise of stock options which would have a dilutive effect on earnings. Such equivalents had no material effect on the computation for the periods ended December 31, 1996, 1995 and 1994.

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128). SFAS 128 is designed to improve the EPS information provided in financial statements by simplifying the existing computational guidelines. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997. The Company does not expect adoption of this standard will have a material impact on its financial statements.

CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

2. PLANT AND EQUIPMENT:

Plant and equipment are summarized as follows:

	December 31, 1996	December 31, 1995	December 31, 1994
	-----	-----	-----
Land	\$ 5,879,994	\$ 5,930,242	\$ 5,864,863
Grandstands and buildings	56,154,054	55,946,326	48,749,083
Equipment	2,936,129	2,685,026	2,110,793
Furniture and fixtures	3,603,276	3,435,761	3,586,659
Tracks and other improvements	31,377,753	29,332,188	28,364,732
Construction in process	74,206	121,920	861,571
	-----	-----	-----
	\$100,025,412	\$97,451,463	\$89,537,701
	=====	=====	=====

Depreciation expense was \$4,038,135, \$3,817,511 and \$3,062,978 for the years ended December 31, 1996, 1995 and 1994.

3. INCOME TAXES:

Components of the provision for income taxes follow:

Income taxes:

	1996	1995	1994
	----	----	----
Currently payable	\$5,431,000	\$3,883,500	\$3,856,700
Deferred income taxes	(461,000)	167,500	129,000
	-----	-----	-----
	\$4,970,000	\$4,051,000	\$3,985,700
	=====	=====	=====

The Company's income tax expense is different from the amount computed by applying the statutory federal income tax rate to income before taxes as follows:

	1996	1995	1994
	----	----	----
Federal statutory tax on Earnings before income tax	\$4,464,000	\$3,486,000	\$3,452,000
State income taxes, net of federal income tax benefit	537,000	552,400	533,700
Other	(31,000)	(12,600)	-
	-----	-----	-----
	\$4,970,000	\$4,051,000	\$3,985,700
	=====	=====	=====

CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

3. INCOME TAXES: (cont'd)

At December 31, 1996, the Company has operating loss carryforwards of approximately \$5,200,000 for Indiana State income tax purposes expiring from 2009 through 2011. Based on the weight of evidence, both negative and positive, including the lack of historical earnings in the state of Indiana, the Company has provided a valuation allowance because it is unable to assert that it is more likely than not to realize some portion or all of the deferred tax asset attributable to the Indiana state income tax net operating loss carryforwards.

Significant components of the Company's deferred tax assets and liabilities at December 31 follows:

	1996 -----	1995 -----	1994 -----
Deferred tax liabilities:			
Excess of book over tax basis of property & equipment	\$2,284,000	\$2,161,000	\$2,037,000
Book basis of racing license in excess of tax basis	657,000	680,000	700,000
Gross deferred tax liability	----- 2,941,000 -----	----- 2,841,000 -----	----- 2,737,000 -----
Deferred tax assets:			
Accrual for supplemental benefit plan	(273,000)	(252,900)	(230,000)
Net operating loss carryforwards	(176,000)	(104,000)	-
Allowance for uncollectible receivables	(66,000)	(54,000)	(86,000)
Excess of book over tax basis of other assets	(136,000)	-	-
Other accruals	(511,500)	(118,600)	(173,000)
Gross deferred tax assets	----- (1,162,500) -----	----- (529,500) -----	----- (489,000) -----
Valuation allowance for deferred tax assets	176,000	104,000	-
Net deferred tax liability	----- \$1,954,500 =====	----- \$2,415,500 =====	----- \$2,248,000 =====

Income taxes are classified in the balance sheet as follows:

Net non-current deferred tax liability	\$2,316,600	\$2,415,500	\$2,248,000
Net current deferred tax asset	(362,100)	-	-
	----- \$1,954,500 =====	----- \$2,415,500 =====	----- \$2,248,000 =====



CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

4. EMPLOYEE BENEFIT PLANS:

The Company has a profit-sharing plan which covers all full-time employees with one year or more of service. The Company will match contributions made by the employee up to 2% of the employee's annual compensation and contribute a discretionary amount determined annually by the Board of Directors. The cost of the plan for the years ended December 31, 1996, 1995 and 1994 was \$402,000, \$280,000 and \$276,000, respectively.

The estimated present value of future payments under a supplemental benefit plan is charged to expense over the period of active employment of the employees covered under the plan. Supplemental benefit plan expense for the years ended December 31, 1996, 1995 and 1994 was \$51,000, \$57,000 and \$49,000, respectively.

The Company is a member of a noncontributory defined benefit multi-employer retirement plan for all members of the Pari-mutuel Clerk's Union of Kentucky. Contributions are made in accordance with negotiated labor contracts. Retirement plan expense for the year ended December 31, 1996, 1995 and 1994 was \$183,246, \$193,774 and \$190,626, respectively. The Company's policy is to fund this expense as accrued.

5. LONG-TERM DEBT:

The Company has an unsecured \$20,000,000 bank line of credit with various options for the interest rate, none of which are greater than the bank's prime rate. The line of credit expires January 31, 1998. The prime rate as of December 31, 1996 was 8.25%. No borrowings were outstanding at December 31, 1996. There was \$6.0 million outstanding at December 31, 1995 and \$7.5 million outstanding at December 31, 1994.

The Company also has two non-interest bearing notes payable in the aggregate face amount of \$900,000 relating to the purchase of an intertrack wagering license from the former owners of the Sports Spectrum property. Interest has been imputed at 8%. The balance of these notes net of unamortized discount was \$350,000, \$420,000 and \$481,000 at December 31, 1996, 1995 and 1994, respectively. The notes require aggregate annual payments of \$110,000. As described in the contingency footnote (Note 10) any remediation costs for environmental cleanup can be offset against any amounts due under these notes payable.

On May 31, 1996, the Company entered into a Partnership Interest Purchase Agreement with Conseco HPLP, L.L.C. ("Conseco") for the sale of 10% of the Company's partnership interest in Hoosier Park to Conseco. The transaction also included a loan by Conseco of approximately \$2,600,000. The loan requires interest of prime plus 2% (10.25% at December 31, 1996) payable monthly with principal due November, 2004. The note is collateralized by 10% of the assets of Hoosier Park.

CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

5. LONG-TERM DEBT: (cont'd)

Maturities of all notes payable for the five years following December 31, 1996 follow:

	PRINCIPLE AMOUNT
1997 -	\$ 74,000
1998 -	80,000
1999 -	86,000
2000 -	93,000
2001 -	17,000
Thereafter -	2,649,000

6. OPERATING LEASES:

The Company contracts for totalisator equipment and service. A contract with a new vendor was entered into on November 1, 1993 and extends through October, 1998. The contract provides for rentals based on a percentage of pari-mutuel wagers registered by the totalisator equipment. Hoosier Park entered into a separate contract with the same vendor for totalisator equipment and service under an agreement which expires in 2001 and provides for variable rentals based on the level of activity. Rental expense for the years ended December 31 1996, 1995 and 1994 was \$1,257,000, \$1,093,000 and \$577,000, respectively.

Hoosier Park leases land in Anderson, Indiana under an operating lease agreement with the City of Anderson. Under the agreement, Hoosier Park pays an annual rent of \$128,520 or one-half of one percent of the total annual handle wagered at the racetrack facility and at the three Indiana simulcast facilities on live races at the track, whichever is greater. The original term of the lease expires April 22, 2003. Hoosier Park has options to renew the lease for three additional ten-year periods subject to the same terms and conditions. Rent expense during 1996, 1995 and 1994 was \$218,821, \$308,037 and \$100,882, respectively, which included \$90,301 and \$179,517 of contingent rentals in 1996 and 1995, respectively.

In November 1995, Hoosier Park entered into an operating lease agreement which expires November 25, 2005 to lease property for the Indianapolis off-track betting facility. Under this agreement, Hoosier Park pays an annual minimum rent of \$200,000, plus additional rent contingent upon annual gross revenues. Hoosier Park has an option to renew the lease for an additional five-year period. Under the terms of the renewal lease, Hoosier Park pays an annual minimum rent of \$300,000, plus additional rent contingent upon annual gross revenues. Rent expense under this agreement during 1996 and 1995 was \$619,646 and \$113,568, respectively.

CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

6. OPERATING LEASES: (cont'd)

Hoosier Park contracts for audio/video equipment and service under an agreement which expires on the last day of racing in the year 2001. The agreement provides for daily fees, which vary based on the level of programming provided. Expense under this agreement during 1996, 1995 and 1994 was \$800,841, \$794,351 and \$99,363, respectively.

A summary of future minimum operating lease payments follows:

Year Ending December 31	Minimum Lease Payment (\$)
1997	\$ 328,520
1998	328,520
1999	328,520
2000	328,520
2001	328,520
Later Years	954,693
Total minimum lease payments	\$2,597,293

7. STOCK-BASED COMPENSATION PLANS:

The Company sponsors the "Churchill Downs Incorporated 1993 Stock Option Plan" (the "Plan"), a stock-based incentive compensation plan which is described below. The Company applies APB Opinion 25 and related interpretations in accounting for the Plan. In 1995, the FASB issued FASB Statement No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123") which, if fully adopted by the Company, would change the methods the Company applies in recognizing the cost of the Plan. Adoption of the cost recognition provisions of SFAS 123 is optional and the Company has decided not to elect these provisions of SFAS 123. However, pro forma disclosures as if the Company adopted the cost recognition provisions of SFAS 123 in 1995 are required by SFAS 123 and are presented below.

Under the Plan, the Company is authorized to issue up to 200,000 shares of common stock pursuant to "Awards" granted in the form of incentive stock options (intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended) and non-qualified stock options. Awards may be granted to selected employees and directors of the Company or any subsidiary.

CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

7. STOCK-BASED COMPENSATION PLANS: (cont'd)

Employee Stock Options:

The Plan provides that the exercise price of any incentive stock option may not be less than the fair market value of the common stock on the date of grant. The exercise price of any nonqualified stock option is not so limited by the Plan. The Company granted stock options in 1996, 1995 and 1994. The stock options granted in those years have contractual terms of 10 years and varying vesting dates, ranging from one to three years following the date of grant. In accordance with APB 25, the Company has not recognized any compensation cost for these stock options.

A summary of the status of the Company's stock options as of December 31, 1996, 1995 and 1994 and the changes during the year ended on those dates is presented below:

	1996		1995		1994	
	# of Shares Underlying Options	Weighted Average Exercise Prices	# of Shares Underlying Options	Weighted Average Exercise Prices	# of Shares Underlying Options	Weighted Average Exercise Prices
Outstanding at beginning of the year	124,000	\$44.68	113,250	\$45.93	92,700	\$46.53
Granted	137,200	\$37.93	10,750	\$31.50	20,550	\$43.22
Exercised	-	-	-	-	-	-
Canceled	92,700	\$46.53	-	-	-	-
Forfeited	-	-	-	-	-	-
Expired	-	-	-	-	-	-
Outstanding at end of year	168,500	\$38.16	124,000	\$44.68	113,250	\$45.93
Exercisable at end of year	-	-	61,800	\$46.53	30,900	\$46.53
Weighted-average fair value per share of options granted during the year	\$11.09		\$ 8.40			

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in 1996 and 1995, respectively: dividend yield of 2.1% in 1995 and ranging from 1.3% to 1.6% in 1996; risk-free interest rates are different for each grant and range from 5.39% to 6.74%; and the expected lives of options are different for each grant and range from approximately 5.5 to 6.5 years, and a volatility of 18.75% for all grants.

CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

7. STOCK-BASED COMPENSATION PLANS: (cont'd)

The following table summarizes information about stock options outstanding at December 31, 1996:

Range of Exercise Prices	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	Number Outstanding At 12/31/96	Weighted Average Remaining Contributing Life	Weighted Average Exercise Price	Number Exercisable At 12/31/96	Weighted Average Exercise Price
\$31.50 to \$38.50	147,950	9.48	\$37.46	-	-
\$42.50 to \$44.00	20,550	7.6	\$43.22	-	-
TOTAL	168,500	9.25	\$38.16	-	-

Employee Stock Purchase Plan:

Under the Company's Employee Stock Purchase Plan (the "Employee Stock Purchase Plan"), the Company is authorized to sell, pursuant to short-term stock options, shares of its common stock to its full-time (or part-time for at least 20 hours per week and at least five months per year) employees at a discount from the common stock's fair market value through payroll deductions. The Employee Stock Purchase Plan operates on the basis of recurring, consecutive one-year periods. Each period commences on August 1 and ends on the next following July 31.

On the first day of each 12 month period, July 1, the Company will offer to each eligible employee the opportunity to purchase common stock. Employees may elect to participate for a period by electing to have a designated percentage of their compensation withheld (after-tax) and applied to purchase shares of common stock on the last day of the period, July 31. The Employee Stock Purchase Plan allows withdrawals, terminations and reductions on the amounts being deducted. The purchase price for the common stock will be 85% of the lesser of the fair market value of the common stock on (i) the first day of the period, or (ii) the last day of the period. No employee may purchase common stock under the Employee Stock Purchase Plan valued at more than \$25,000 for each calendar year.

Under the Employee Stock Purchase Plan, the Company sold 3,909 shares of common stock to 109 employees pursuant to options granted on August 1, 1995 and exercised on July 31, 1996. Because the plan year overlaps the company's fiscal year, the number of shares sold pursuant to options granted on July 1, 1996 can only be estimated because the 1996 plan year is not yet complete. The Company's estimate of options granted in 1996 under the Plan is based on the number of shares sold to employees under the Plan for the 1995 plan year, adjusted to reflect the change in the number of employees participating in the Plan in 1996.

In accordance with APB 25, the Company has not recognized any compensation cost for the Employee Stock Purchase Plan for 1996 or 1995 (or any other prior year).

CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

7. STOCK-BASED COMPENSATION PLANS: (cont'd)

A summary of the status of the Company's stock options under the Employee Stock Purchase Plan as of December 31, 1996 and 1995 and the changes during the year ended on those dates is presented below:

	1996		1995	
	# of Shares Underlying Options	Weighted Average Exercise Prices	# of Shares Underlying Options	Weighted Average Exercise Prices
Outstanding at beginning of the year	3,909	\$28.90	-	-
Granted	4,000	\$34.43	3,909	\$28.90
Exercised	3,909	\$28.90	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at end of the year	4,000	-	3,909	-
Exercisable at end of year	-	-	-	-
Weighted-average fair value per share of options granted during the year	\$12.78		\$10.71	

Had the compensation cost for the Company's stock-based compensation plans been determined consistent with SFAS 123, the Company's net income and net income per common share for 1996 and 1995 would approximate the pro forma amounts below:

	1996	1995
Net income:		
As reported	\$8,071,526	\$6,203,135
Pro-forma	7,530,000	6,153,000
Net income per common share:		
As reported	\$2.17	\$1.64
Pro-forma	2.02	1.63

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to 1995, and the Company anticipates making awards in the future under its stock-based compensation plans.

CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

8. FAIR VALUES OF FINANCIAL INSTRUMENTS:

Financial Accounting Standards Board ("FASB") Statement No. 107, "Disclosure about Fair Value of Financial Instruments," is a part of a continuing process by the FASB to improve information on financial instruments. The following methods and assumptions were used by the Company in estimating its fair value disclosures for such financial instruments as defined by the Statement:

Cash and Cash Equivalents - The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Long-Term Debt - The carrying amounts of the Company's borrowings under its line of credit agreements and other long-term debt approximates fair value, based upon current interest rates.

9. ACQUISITION:

On January 26, 1994 the Company purchased Anderson Park, Inc. ("API") for approximately \$1,950,000. API owned an Indiana Standardbred racing license and was in the process of constructing a racing facility in Anderson, Indiana. Subsequently, the facility was completed and contemporaneously with the commencement of operations on September 1, 1994, the net assets of API were contributed to a newly formed partnership, Hoosier Park, L.P. in return for an 87% general partnership interest.

10. CONTINGENCIES:

On January 22, 1992, the company acquired certain assets of Louisville Downs, Incorporated for \$5,000,000. In conjunction with this purchase, the Company withheld \$1,000,000 from the amount due to the sellers to offset certain costs related to the remediation of environmental contamination associated with underground storage tanks at the site. Substantially all of the \$1,000,000 hold back had been utilized as of December 31, 1995. In addition, the Company may offset any additional costs against additional amounts payable to the sellers for the acquisition of the property.

It is not anticipated that the Company will have any liability as a result of compliance with environmental laws with respect to the property. Compliance with environmental laws has not otherwise affected development and operation the property and the Company is not otherwise subject to any material compliance costs in connection with federal or state environmental laws.

CHURCHILL DOWNS INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

11. SALE OF 10% OF HOOSIER PARK:

On December 20, 1995, the Company entered into a Partnership Interest Purchase Agreement with Conseco HPLP, L.L.C. ("Conseco") for the sale of 10% of the Company's partnership interest in HPLP to Conseco. This sale was closed on May 31, 1996. The purchase price for the 10% partnership interest was \$218,390 and the transaction also included a payment of \$2,603,514 for a 10% interest in the debt owed by HPLP to a subsidiary of the Company. Conseco and Pegasus Group, Inc. ("Pegasus") are limited partners of HPLP and Anderson Park, Inc. ("API"), a subsidiary of the Company, continues to be the sole general partner of HPLP.

Through December 31, 1998, Conseco has an option to purchase from API an additional 47% partnership interest in HPLP including payment for 47% interest in the debt owed by HPLP to a subsidiary of the Company. The purchase price of the additional partnership interest will be approximately \$6,222,000 and the payment for the debt will be approximately \$15,934,000. This purchase is subject to the approval of the Indiana Horse Racing Commission. Upon exercise of the option, Conseco would be the sole general partner of HPLP, and API and Pegasus will be limited partners of HPLP with partnership interests of 30% and 13%, respectively. The Company will continue to have a long-term management agreement with HPLP pursuant to which the Company has operational control of the day-to-day affairs of HPLP and its related simulcast facilities.



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required herein is incorporated by reference from sections of the Company's Proxy Statement titled "Elections of Directors" and "Executive Officers of the Company," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION.

The information required herein is incorporated by reference from sections of the Company's Proxy Statement titled "Elections of Directors - Compensation and Committees of the Board of Directors" and "Executive Compensation," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required herein is incorporated by reference from the sections of the Company's Proxy Statement titled "Common Stock Owned by Certain Persons," "Election of Directors" and "Executive Officers of the Company," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required herein is incorporated by reference from the section of the Company's Proxy Statement titled "Certain Relationships and Related Transactions," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Consolidated Financial Statements

The following financial statements of Churchill Downs Incorporated for the year ended December 31, 1996, the year ended December 31, 1995 and the year ended December 31, 1994 are included in Part II, Item 8:

	PAGES
Reports of Independent Accountants	32
Consolidated Balance Sheets	33
Consolidated Statements of Earnings	34
Consolidated Statements of Stockholders' Equity	35
Consolidated Statements of Cash Flows	36
Notes to Consolidated Financial Statements	37-48
Schedule VIII - Valuation and Qualifying Accounts	52

All other schedules are omitted because they are not applicable, not significant or not required, or because the required information is included in the financial statement notes thereto.

(b) Reports on Form 8-K:

None

(c) Exhibits

See exhibit index.

(d) All financial statements and schedules except those items listed under items 14(a)1 and (a)2 above are omitted because they are not applicable, or not required, or because the required information is included in the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHURCHILL DOWNS INCORPORATED

/S/ THOMAS H. MEEKER  
Thomas H. Meeker  
President  
March 20, 1997  
(Principal Executive Officer)

/S/ ROBERT L. DECKER  
Robert L. Decker  
Sr. Vice President, Finance  
March 20, 1997  
(Chief Financial Officer)

/S/ VICKI L. BAUMGARDNER  
Vicki L. Baumgardner  
Vice President, Finance/Treasurer  
March 20, 1997  
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/S/ CHARLES W. BIDWILL, JR.  
Charles W. Bidwill, Jr.  
March 20, 1997  
(Director)

/S/ CATESBY W. CLAY  
Catesby W. Clay  
March 20, 1997  
(Director)

William S. Farish  
March 20, 1997  
(Director)

J. David Grissom  
March 20, 1997  
(Director)

Seth W. Hancock  
March 20, 1997  
(Director)

/S/ FRANK B. HOWER, JR.  
Frank B. Hower, Jr.  
March 20, 1997  
(Director)

G. Watts Humphrey, Jr.  
March 20, 1997  
(Director)

/S/ W. BRUCE LUNSFORD  
W. Bruce Lunsford  
March 20, 1997  
(Director)

Arthur B. Modell  
March 20, 1997  
(Director)

/S/ CARL F. POLLARD  
Carl F. Pollard  
March 20, 1997  
(Director)

/S/ DARRELL R. WELLS  
Darrell R. Wells  
March 20, 1997  
(Director)

/S/ DENNIS D. SWANSON  
Dennis D. Swanson  
March 29, 1997  
(Director)

/S/ THOMAS H. MEEKER  
Thomas H. Meeker  
March 20, 1997  
(Director)

CHURCHILL DOWNS INCORPORATED

SCHEDULE VIII. - VALUATION AND QUALIFYING ACCOUNTS

Description -----	Balance, Beginning Of Period -----	Charged to Expenses -----	Deductions -----	Balance, End Of Period -----
Year ended December 31, 1996:				
Allowance for doubtful accounts and notes receivable	\$135,000	\$ 30,000	-	\$165,000
Valuation allowance for deferred tax asset	104,000	72,000	-	176,000
	-----	-----	-----	-----
	\$239,000	\$102,000	-	\$341,000
	=====	=====	=====	=====
Year ended December 31, 1995:				
Allowance for doubtful accounts and notes receivable	\$215,000	-	\$ 80,000	\$135,000
Valuation allowance for deferred tax asset	-	\$104,000	-	104,000
	-----	-----	-----	-----
	\$215,000	\$104,000	\$ 80,000	\$239,000
	=====	=====	=====	=====
Year ended December 31, 1994:				
Allowance for doubtful accounts and notes receivable	\$215,000	\$ -	\$ -	\$215,000
	-----	-----	-----	-----

EXHIBIT INDEX

NUMBERS	DESCRIPTION	BY REFERENCE TO
(3)(a)	Restated Articles of Incorporation	Exhibit A to report on Form 8-K filed with the Securities and Exchange Commission on July 11, 1991
(b)	Restated Bylaws as amended year ended December 31, 1994	Exhibit 3(b) to report on Form 10-K for
(10)(a)	Churchill Downs Restated Supplemental Benefit Plan dated March 1, 1995	Exhibit 10 (a) to report on Form 10-K for the year ended December 31, 1994
(b)	Employment Agreement dated as of October 1, 1984, with Thomas H. Meeker, President	Exhibit 19(a) to Report on Form 10-Q for fiscal quarter ended October 31, 1984
(c)	Churchill Downs Incorporated Amended Incentive Compensation Plan (1997)	Exhibit 10 (C) to report on Form 10-K for the year ended December 31, 1994
(d)	Churchill Downs Incorporated 1993 Stock Option Plan	Exhibit 10(h) to Report on Form 10-K for the eleven months ended December 31, 1993
(e)	Stock Purchase Agreement naming Dominick Marotta, Frank Marotta, Louis E. Carlo and Edward F. Draugelis	Exhibit 10(i) to Report on Form 8-K filed with the Securities and Exchange Commission on February 10, 1994
(f)	Amendment of Employment Agreement with Thomas H. Meeker, President, dated October 1, 1984	Report on Form 10-K for the fiscal year ended January 31, 1986; Report on Form 10-K for the fiscal year ended January 31, 1987; 1988, 1990, 1991, 1992 and 1993
(g)	Amendment No. 1 to Churchill Downs Incorporated 1993 Stock Option Plan	Exhibit 10 (g) to report on Form 10-K for the year ended December 31, 1994

- |      |   |  |
|------|---|--|
| (h)  | Promissory Note dated May 31, 1994 in the principal amount of \$20,000,000 by Churchill Downs Incorporated to PNC Bank, Kentucky, Inc.                          | Exhibit 10(1) to report on Form 10-Q for the fiscal quarter ended June 30, 1994      |
| (i)  | Amended and Restated Lease Agreement dated January 31, 1996   | Exhibit 10 (I) to report on Form 10-K for the year ended December 31, 1995           |
| (j)  | Amendment No. 1 to Promissory Note dated May 31, 1994   | Report on Form 10-K for the year ended December 31, 1994                             |
| (k)  | Partnership Interest Purchase for Agreement dated December 20, 1995 among Anderson Park, Inc., Conseco HPLP, L.L.C., Pegasus Group, Inc. and Hoosier Park, L.P. | Exhibit 10(k) to report on Form 10-K for the year ended December 31, 1995            |
| (21) | Subsidiaries of the registrant  | Report on Form 10-K for the year ended December 31, 1994                             |
| (23) | Consent of Coopers & Lybrand, LLP Independent Accountants   | Report on Form 10-K for the year ended December 31, 1996                             |
| (27) | Financial Data Schedule   | Report on Form 10-K for the year ended December 31, 1996                             |
| (99) | Names and addresses of certain shareholders of the Company who are parties to the Third Supplemental Stockholder Agreement                                      | Schedule 13D filed with the Commission on April 25, 1995, as amended on May 31, 1995 |

EXHIBIT 23

We consent to the incorporation by reference in the registration statement of Churchill Downs Incorporated on Form S-8 (File No. 33-85012) of our report dated March 7, 1997 on our audits of the consolidated financial statements and financial statement schedule of Churchill Downs Incorporated as of December 31, 1996, 1995 and 1994 and for each of the three years then ended which report is included in this Annual Report on Form 10-K.

/S/COOPERS & LYBRAND L.L.P.  
Coopers & Lybrand L.L.P.

Louisville, Kentucky  
March 28, 1997

RESTATED BYLAWS OF  
CHURCHILL DOWNS INCORPORATED

ARTICLE I  
OFFICE AND SEAL

SECTION 1. OFFICES. The principal office of the Corporation in the State of Kentucky shall be located at 700 Central Avenue, Louisville, Kentucky. The Corporation may have such other offices, either within or without the State of Kentucky, as the business of the Corporation may require from time to time.

SECTION 2. THE CORPORATE SEAL. The Seal of the Corporation shall be circular in form, mounted upon a metal die suitable for impressing same upon paper, and along the upper periphery of the seal shall appear the word "Churchill Downs" and along the lower periphery thereof the word "Kentucky". The center of the seal shall contain the word "Incorporated".

ARTICLE II

STOCKHOLDERS MEETINGS AND RECORD DATES

SECTION 1. ANNUAL MEETING. The date of the annual meeting of the stockholders for the purpose of electing directors and for the transaction of such other business as may come before the meeting shall be established by the Board of Directors, but shall not be later than 180 days following the end of the Corporation's fiscal year. If the election of Directors shall not be held on the day designated for any annual meeting, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the stockholders to be held as soon thereafter as may be convenient.

SECTION 2. SPECIAL MEETINGS. Special meetings of the stockholders may be called by the President, the Chairman of the Board or by holders of not less than 33-1/3% of all the shares entitled to vote at the meeting, or by a majority of the members of the Board of Directors.

SECTION 3. PLACE OF MEETING. The Board of Directors may designate any place within or without the State of Kentucky as the place of meeting for any annual meeting of stockholders, or any place either within or without the State of Kentucky as the place of meeting for any special meeting called by the Board of Directors.

If no designation is made, or if a special meeting be called by other than the Board of Directors, the place of meeting shall be the principal office of the Corporation in the State of Kentucky.

SECTION 4. NOTICE OF MEETINGS. Written notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) nor more than sixty (60) days before the date of the meeting, either personally or by mail, by or at the direction of the President, or the Secretary, or the officer or

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persons calling the meeting, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail in a sealed envelope addressed to the stockholder at his address as it appears on the records of the Corporation, with first class postage thereon prepaid.

SECTION 5. RECORD DATE. The Corporation's record date shall be fixed by the Board of Directors for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders, or stockholders entitled to receive any distribution. When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided herein, such determination shall apply to any adjournment thereof.

SECTION 6. VOTING LISTS AND SHARE LEDGER. The Secretary shall prepare a complete list of the stockholders entitled to vote at any meeting, or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each stockholder, which list shall be produced and kept open at the meeting and shall be subject to the inspection of any stockholder during the meeting. The original share ledger or stock transfer book, or a duplicate thereof kept in this State, shall be PRIMA FACIE evidence as to the stockholders entitled to examine such list or share ledger or stock transfer book, or the stockholders entitled to vote at any meeting of stockholders or to receive any dividend.

SECTION 7. QUORUM. A majority of the outstanding shares entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of stockholders. The stockholders present at a duly organized meeting can continue to do business at any adjourned meeting, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

SECTION 8. PROXIES. At all meetings of stockholders, a stockholder may vote by proxy. An appointment of a proxy shall be executed in



writing by the stockholder or by his duly authorized attorney-in-fact and be filed with the Secretary of the Corporation before or at the time of the meeting.

SECTION 9. NATURE OF BUSINESS. At any meeting of stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors or by any stockholder who complies with the procedures set forth in this Section 9.

No business may be transacted at any meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before such meeting of stockholders by or at the direction of the Board of Directors, or (c) in the case of any annual meeting of stockholders or a special meeting called for the purpose of electing directors, otherwise properly brought before such meeting by any stockholder (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 9 and on the record

date for the determination of stockholders entitled to vote at such meeting of stockholders and (ii) who complies with the notice procedures set forth in this Section 9.

In addition to any other applicable requirements, for business to be properly brought before any annual meeting of stockholders by a stockholder, or for a nomination of a person to serve as a Director, to be made by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary.

To be timely, a stockholder's notice to the Secretary must be delivered or mailed to and be received at the principal executive offices of the Corporation (a) in the case of the annual meeting of stockholders, not less than ninety(90) nor more than one hundred and twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of stockholders; PROVIDED, HOWEVER, that in the event that the annual meeting of stockholders is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder, in order to be timely, must be so received not later than the close of business on the tenth (10th) day following the day on which notice of the date of the annual meeting of stockholders was mailed or public disclosure of the date of such meeting was made, whichever first occurs; and (b) in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting of stockholders was mailed or public disclosure of the date of such meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter (including nominations) such stockholder proposes to bring before the meeting of stockholders (a) a brief description of the business desired to be brought before the meeting and the reasons for conducting the business at the meeting, (b) the name and record address of such stockholder, (c) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder as of the record date for the meeting (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice, (d) a description of all arrangements or understandings between 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, (e) as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person and (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by the person as of the record date for the meeting (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice, (f) any other information which would be required to be disclosed in a proxy statement or other filings required to be made in connection with the solicitations of proxies for the proposal (including, if applicable, with respect to the election of directors) pursuant to Section 14 of the Securities Exchange Act of 1934, as

amended, and the rules and regulations promulgated thereunder if such stockholder were engaged in such solicitation, and (g) a representation that such stockholder intends to appear in person or by proxy at the meeting to bring such business before the meeting. Any notice concerning the nomination of a person for election as a director must be accompanied by a written consent of the proposed nominee to being named as a nominee and to serve as a director if elected.

No business shall be conducted and no person shall be eligible for election as a Director at any annual meeting of stockholders or a special meeting of stockholders called for the purpose of electing directors except business or nominations brought before such meeting in accordance with the procedures set forth in this Section 9; PROVIDED, HOWEVER, that, once business has been properly brought before the meeting in accordance with such procedures, nothing in this Section 9 shall be deemed to preclude discussion by any stockholder of any such business. If the chairman of the meeting of stockholders determines that business was not properly brought before such meeting, or a nomination was not properly made, as the case may be, in accordance with the foregoing procedures, the chairman shall declare to the meeting that (a) the business was not properly brought before the meeting and such business shall not be transacted, or, if applicable, (b) the nomination was defective and such defective nomination shall be disregarded.

### ARTICLE III

#### DIRECTORS

SECTION 1. GENERAL POWERS. The business and affairs of the Corporation shall be managed by a Board of Directors.

SECTION 2. NUMBER AND TENURE. The Board of Directors shall consist of thirteen (13) members but the number may be increased or decreased by amendment of this Bylaw. The Directors shall be divided into three classes, consisting of four (4) Class I Directors, five (5) Class II Directors and four (4) Class III Directors. At the 1995 annual meeting of shareholders, one (1) Class I director shall be elected for a term of two (2) years, five (5) Class II directors shall be elected for a term of three (3) years, and one (1) Class III director shall be elected for a term of one (1) year. Thereafter, each director shall hold office for a term of three (3) years (or in the case of the Class I director elected in 1995, a term of two (2) years; or in the case of the Class III director elected in 1995, a term of one (1) years) or until his successor shall have been elected and qualifies for the office, whichever period is longer. Except for any individual who is serving as Chairman of the Board of Directors at the time of nomination of directors, a person shall not be qualified for election as a Director unless he shall be less than seventy-two (72) years of age on the date of election. Each Director other than the Chairman of the Board of Directors shall become a Director Emeritus upon expiration of his current term following the date the Director is no longer qualified for election as a Director due to age. Directors Emeritus may attend all regular and special meetings of the

Board of Directors and shall serve in an advisory capacity without a vote in Board actions.

SECTION 3. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this bylaw, immediately after, and at the same place as, the annual meeting of stockholders. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Kentucky, for the holding of additional regular meetings without other notice than such resolution.

SECTION 4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the President, the Chairman of the Board or the majority of the Board of Directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Kentucky, as the place for holding any special meeting of the Board of Directors.

SECTION 5. NOTICE. Notice of any special meeting of the Board of Directors shall be given by notice delivered personally, by mail, by telegraph or by telephone. If mailed, such notice shall be given at least five (5) days prior thereto and such mailed notice shall be deemed to have been delivered upon the earlier of receipt or five (5) days after it is deposited in the United States mail in a sealed envelope so addressed, with first class postage thereon prepaid. If notice is given by telegram, it shall be delivered at least twenty-four (24) hours prior to the special meeting and such telegram notice shall be deemed to have been delivered when the telegram is delivered to the telegraph company. Personal notice and notice by telephone shall be given at least twenty-four (24) hours prior to the special meeting and shall be deemed delivered upon receipt. Any Director may waive notice of any meeting. The attendance of a Director at any meeting shall constitute a waiver of notice of such meeting, except when a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

SECTION 6. QUORUM. A majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, provided that if less than a majority of the Directors are present at said meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

SECTION 7. MANNER OF ACTING. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

SECTION 8. VACANCIES. Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining Directors though less than a quorum of the Board of

Directors. A Director elected to fill a vacancy shall serve until the next annual meeting of the stockholders.

SECTION 9. INFORMAL ACTION. Any action required or permitted to be taken of the Board of Directors or of a committee of the Board, may be taken without a meeting if a consent, in writing, setting forth action so taken shall be signed by all of the Directors, or all of the members of the committee, as the case may be. Members of the Board of Directors or any committee designated by the Board may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment whereby all persons participating in the meeting can hear or speak to each other at the same time. Participation in a meeting pursuant to this section shall constitute presence in person at the meeting.

SECTION 10. NOMINATION OF DIRECTORS. Only persons who are nominated in accordance with the procedures set forth in Section 9 of Article II of these Bylaws shall be eligible for election as Directors of the Corporation, except as may be otherwise provided in the Restated Articles of Incorporation with respect to the right of holders of preferred stock of the Corporation to nominate and elect a specified number of Directors in certain circumstances.

#### ARTICLE IV

##### COMMITTEES OF THE BOARD

SECTION 1. COMMITTEES. The Board of Directors shall have authority to establish such committees as it may consider necessary or convenient for the conduct of its business. All committees so established shall keep minutes of every meeting thereof and such minutes shall be submitted at the next regular meeting of the Board of Directors at which a quorum is present, and any action taken by the Board with respect thereto shall be entered in the minutes of the Board. Each committee so established shall elect a Chairman of the committee.

SECTION 2. THE EXECUTIVE COMMITTEE. The Board of Directors shall appoint and establish an Executive Committee composed of the Chairman of the Board and up to six (6) other Directors who shall be appointed by the Board annually. The Executive Committee shall have and may exercise when the Board of Directors is not in session, all of the authority of the Board of Directors that may lawfully be delegated; provided, however, the Executive Committee shall not have the power to enter into any employment agreement with an officer of the Corporation, without the specific approval and ratification of the Board of Directors. A majority in membership of the Executive Committee shall constitute a quorum.

SECTION 3. THE AUDIT COMMITTEE. The Board of Directors shall appoint and establish an Audit Committee composed of the Chairman of the Board and up to four (4) Directors, none of whom shall be officers, who shall be appointed by the Board annually. The Audit Committee shall make an examination every twelve months into the affairs of the Corporation and report the results of such examination in writing to the Board of Directors at the next regular meeting

thereafter. Such report shall state whether the Corporation is in sound condition and whether adequate internal audit controls and procedures are being maintained and shall include recommendations to the Board of Directors regarding such changes in the manner of doing business or conducting the affairs of the Corporation as shall be deemed advisable.

SECTION 4. THE COMPENSATION COMMITTEE. The Board of Directors shall appoint and establish a Compensation Committee to be composed of the Chairman of the Board and up to four (4) Directors who shall be appointed by the Board annually. Each member of the Compensation Committee shall be a director who is not, during the one year prior to service or during such service, granted or awarded equity securities pursuant to any compensation plan of the Company. It shall be the duty of the Compensation Committee to administer the Corporation's Supplemental Benefit Plan, the Amended and Restated Incentive Compensation Plan (1993), the 1993 Stock Option Plan and any shareholder approved employee stock purchase or thrift plan, including without limitation, matters relating to the amendment, administration, interpretation, employee eligibility for and participation in, and termination of, the foregoing plans. It shall further be the duty of the Compensation Committee to review annually the salaries paid to all executive officers of the Corporation and make all decisions relating to executive compensation after considering the recommendations of the CEO (on all but CEO compensation) and to exercise any other authorities relating to compensation that the Board may lawfully delegate to it; provided, however, the Compensation Committee shall not have the power to enter into any employment agreement with an officer of the Corporation without the specific approval and ratification of the Board of Directors.

SECTION 5. THE RACING COMMITTEE. The Board of Directors shall appoint and establish a Racing Committee to be composed of the Chairman of the Board and up to four (4) Directors who shall be appointed by the Board annually. The Racing Committee shall be responsible for and shall have the authority to obligate the Corporation with respect to matters concerning the Corporation's contracts and relations with horsemen, jockeys and others providing services relating to the conduct of horse racing, including the authority to approve and cause the Corporation to enter into contracts with organizations representing horsemen and/or commit to provide benefits or services by the Corporation to horsemen and others.

SECTION 6. NOTICE OF COMMITTEE MEETINGS. Notice of all meetings by the committees established in this Article shall be given in accordance with the special meeting notice section, Article III, Section 5, of these Bylaws.

#### ARTICLE V

#### OFFICERS

SECTION 1. CLASSES. The officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers and agents as may be provided by the Board and elected in accordance with the provisions of

this Article. Any of the offices may be combined in one person in accordance with the provisions of law. The Chairman of the Board of Directors shall be a member of the Board but none of the other officers is required to be a member of the Board.

SECTION 2. ELECTION AND TERM OF OFFICE. The officers of the Corporation shall be elected annually by the Board of Directors at the first meeting of the Board held after each annual meeting of stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Vacancies may be filled or new offices created and filled at any meeting of the Board of Directors. Each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign or shall have been removed from office in the manner hereinafter provided.

SECTION 3. REMOVAL. Any officer elected by the Board of Directors may be removed by the President whenever in his judgment the best interest of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed and shall be subject always to supervision and control of the Board of Directors. Election or appointment of an officer or agent shall not of itself create contractual rights.

SECTION 4. CHAIRMAN OF THE BOARD. The Chairman of the Board of Directors shall call to order and preside at all stockholders' meetings and at all meetings of the Board of Directors. He shall perform such other duties as he may be authorized to perform by the Board of Directors.

SECTION 5. PRESIDENT. The President shall be the chief executive officer of the Corporation and as such shall in general supervise and control all of the business operations and affairs of the Corporation. In the absence of the Chairman of the Board of Directors, or in the event of the death or incapacity of the Chairman, the President shall perform the duties of the Chairman until a successor Chairman is elected or until the incapacity of the Chairman terminates. The President shall have full power to employ and cause to be employed and to discharge and cause to be discharged all employees of the Corporation, subject always to supervision and control of the Board of Directors. When authorized so to do by the Board of Directors, he shall execute contracts and other documents for and in behalf of the Corporation. Unless otherwise ordered by the Board of Directors, the President shall have full power and authority on behalf of the Corporation to attend, act and vote at any meeting of stockholders of any corporation in which this Corporation may hold stock. He shall perform such other duties as may be specified in the Bylaws and such other duties as he may be authorized to perform by the Board of Directors.

SECTION 6. EXECUTIVE VICE PRESIDENT. In the case of the death of the President or in the event of his inability to act, the Executive Vice President designated by the Board shall perform the duties of the President and, when so acting, shall have all the powers of and be subject to all restrictions upon the President. The

Executive Vice President shall perform such other duties as from time to time may be assigned by the President or by the Board of Directors.

SECTION 7. TREASURER. The Treasurer, subject to the control of the Board of Directors, and together with the President, shall have general supervision of the finances of the Corporation. He shall have care and custody of and be responsible for all moneys due and payable to the Corporation from any source whatsoever and deposit such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of these Bylaws. The Treasurer shall have the care of, and be responsible for all securities, evidences of value and corporate instruments of the Corporation, and shall supervise the officers and other persons authorized to bank, handle and disburse its funds, informing himself as to whether all deposits are or have been duly made and all expenditures duly authorized and evidenced by proper receipts and vouchers. He shall cause full and accurate books to be kept, showing the transactions of the Corporation, its accounts, assets, liabilities and financial condition, which shall at all times be open to the inspection of any Director, and he shall make due reports to the Board of Directors and the stockholders, and such statements and reports as are required of him by law. Subject to the Board of Directors, he shall have such other powers and duties as are incident to his office and not inconsistent with the Bylaws, or as may be assigned to him at any time by the Board.

SECTION 8. SECRETARY. The Secretary shall attend all meetings of the Board of Directors, make a record of the business transacted and record same in one or more books kept for that purpose. The Secretary shall see that the Stock Transfer Agent of the Corporation keeps proper records of all transfers, cancellations and reissues of stock of the Corporation and shall keep a list of the stockholders of the Corporation in alphabetical order, showing the Post Office address and number of shares owned by each. The Secretary shall also keep and have custody of the seal of the Corporation and when so directed and authorized by the Board of Directors shall affix such seal to instruments requiring same. The Secretary shall be responsible for authenticating records of the Corporation and shall perform such other duties as may be specified in the Bylaws or as he may be authorized to perform by the Board of Directors.

SECTION 9. VICE PRESIDENTS. There may be additional Vice Presidents elected by the Board of Directors who shall have such responsibilities, powers and duties as from time to time may be assigned by the President or by the Board of Directors.

#### ARTICLE VI

##### CONTRACTS, LOANS, CHECKS AND DEPOSITS

SECTION 1. CONTRACTS AND AGREEMENTS. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or agreement or execute and deliver any instruments in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.



SECTION 2. LOANS. No loans shall be contracted on behalf of the Corporation, and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

SECTION 3. CHECKS, DRAFTS, ORDERS, ETC. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents, of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 4. DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board of Directors may select.

#### ARTICLE VII

##### CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as may be determined by the Board of Directors. Such certificates shall be signed by the President or Vice President and by the Secretary or an assistant Secretary and may be sealed with the seal of the Corporation or a facsimile thereof. All certificates surrendered to the Corporation for transfer shall be canceled, and no new certificate shall be issued until the former certificate for all like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate, a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 2. TRANSFER OF SHARES. Transfer of shares of the Corporation shall be made only on the books of the Corporation by the registered holder thereof or by his attorney authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

#### ARTICLE VIII

##### FISCAL YEAR

The fiscal year of the Corporation shall begin on the 1st day of January and end on the 31st day of December.

#### ARTICLE IX

##### WAIVER OF NOTICE

Whenever any notice is required to be given under the provisions of these Bylaws, or under the provisions of the Articles of

Incorporation, or under the provisions of the corporation laws of the State of Kentucky, waiver thereof in writing, signed by the person, or persons, entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

#### ARTICLE X

##### INDEMNIFICATION OF OFFICERS AND DIRECTORS

The Corporation shall indemnify and may advance expenses to all Directors, officers, employees, or agents of the Corporation, and their executors, administrators or heirs, who are, were or are threatened to be made a defendant or respondent to any threatened, pending or completed action, suit or proceedings (whether civil, criminal, administrative or investigative) by reason of the fact that he is or was a Director, officer, employee or agent of the Corporation, or while a Director, officer, employee or agent of the Corporation, is or was serving the Corporation or any other legal entity in any capacity at the request of the Corporation (hereafter a "Proceeding"), to the fullest extent that is expressly permitted or required by the statutes of the Commonwealth of Kentucky and all other applicable law.

In addition to the foregoing, the Corporation shall, by action of the Board of Directors, have the power to indemnify and to advance expenses to all Directors, officers, employees or agents of the Corporation who are, were or are threatened to be made a defendant or respondent to any Proceeding, in such amounts, on such terms and conditions, and based upon such standards of conduct as the Board of Directors may deem to be in the best interests of the Corporation.

#### ARTICLE XI

##### FIDELITY BONDS

The Board of Directors shall have authority to require the execution of fidelity bonds by all or any of the officers, agents and employees of the Corporation in such amount as the Board may determine. The cost of any such bond shall be paid by the Corporation as an operating expense.

#### ARTICLE XII

##### AMENDMENT OF BYLAWS

The Board of Directors may alter, amend or rescind these Bylaws, subject to the right of the stockholders to repeal or modify such actions.

CHURCHILL DOWNS INCORPORATED  
INCENTIVE COMPENSATION PLAN (1997)

ARTICLE 1

PURPOSE

The purpose of the CHURCHILL DOWNS INCORPORATED INCENTIVE COMPENSATION PLAN is to promote the interests of the Company and its stockholders by providing greater incentives to officers and other key management employees by rewarding them for services rendered with compensation in an amount which is directly related to the success of the Company as well as the performance of the operating units and the individual employees.

ARTICLE 2

DEFINITIONS

2.1 DEFINITIONS. The following words and phrases, when used herein, unless their context clearly indicates otherwise, shall have the following respective meanings:

A. BENEFICIARY. A person or persons (natural or otherwise) designated by a Participant in accordance with the provisions of Article 8 to receive any benefits which shall be payable under this Plan.

B. BOARD. The Board of Directors of Churchill Downs Incorporated.

C. BUDGET. The annual operating budget approved by the Board for each year during the term of the Plan.

D. CEO. The Chief Executive Officer of Churchill Downs Incorporated.

E. COMPANY. Churchill Downs Incorporated and its subsidiaries.

F. COMPANY ACHIEVEMENT PERCENTAGE LEVELS. The percentages established annually by the Committee to be used, as provided in Section 6.2, in computing a part of an Annual Incentive Compensation Award based upon achievement of a Company Performance Goal.

G. COMPANY PERFORMANCE GOALS. The goal defined in Section 6.1.A.

H. DISABILITY. A physical or mental condition arising after the Effective Date hereof which qualifies a Participant for disability benefits under the Social Security Act in effect on the date of disability.

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I. DISCRETIONARY ACHIEVEMENT PERCENTAGE LEVELS. The percentages established annually by the Committee to be used, as provided in Section 6.5, in computing a part of an Annual Incentive Compensation Award, based upon achievement of a Discretionary Performance Goal.

J. DISCRETIONARY PERFORMANCE GOALS. The goals defined in Section 6.1.D.

K. EFFECTIVE DATE. January 1, 1997.

L. INCENTIVE COMPENSATION AWARD. The award as defined in Article 6. An award under the Churchill Downs Incorporated Incentive Compensation Plan (1997) during any year shall be an "Annual Incentive Compensation Award."

M. PARTICIPANT. An employee of the Company who is selected for participation in the Plan in accordance with the provisions of Article 5. For purposes of Articles 7 and 8, the term Participant shall also include a former employee who is entitled to benefits under this Plan.

N. PARTICIPATION CLASSIFICATION. The classification assigned to each Participant in accordance with the provisions of Article 5.

O. PARTICIPATION PERCENTAGE. The percentages of participation in the Plan as defined in Article 6.

P. PERFORMANCE GOALS. The performance goals as defined in Article 6 and SCHEDULE A.

Q. PLAN. The Churchill Downs Incorporated Incentive Compensation Plan (1997).

R. PLAN YEAR. The twelve-month period commencing on January 1 of one calendar year and ending on December 31 of the same calendar year, which period is also the Company's fiscal year.

S. PROFIT CENTER. The Race Profit Center, the Sales Profit Center, and Churchill Downs Management Company, and any other profit centers designated by the CEO.

T. PRE-TAX INCOME. The annual consolidated income of the Company, before federal and state income taxes, after any allowance for payments made or to be made under this Plan, and after inclusion of all extraordinary revenues and deduction of all extraordinary expenses, all as calculated in accordance with generally accepted accounting principles consistently applied and confirmed by the audit report of the Company's independent public accountants.

U. PROFIT CENTER ACHIEVEMENT PERCENTAGE LEVELS. The percentages established annually by the Committee to be used, as provided in Section 6.3, in

computing a part of an Annual Incentive Compensation Award, based upon achievement of a Profit Center Performance Goal.

V. PROFIT CENTER PERFORMANCE GOALS. The goals defined in Section 6.1.B.

W. SALARY. The Participant's base annual salary as set by either the Compensation Committee of the Board or the CEO.

X. SERVICE CENTER. The Finance, Development & Technology Service Center, the Legal & Administration Service Center, the Corporate Communications Service Center, and any other service center designated by the CEO.

Y. SERVICE CENTER ACHIEVEMENT PERCENTAGE LEVELS. The percentages established annually by the Committee to be used, as provided in Section 6.4, in computing a part of an Annual Incentive Compensation Award based upon achievement of a Service Center Performance Goal.

Z. SERVICE CENTER PERFORMANCE GOALS. The goals defined in Section 6.1.C.

AA. TERMINATION DATE. December 31, 2001, or such earlier date as may be determined under Section 9.2.

2.2 CONSTRUCTION. The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender, unless the context clearly indicates to the contrary.

### ARTICLE 3

#### ADMINISTRATION

3.1 COMMITTEE. The Plan shall be administered by the Compensation Committee of the Board (hereinafter the "Committee").

3.2 COMMITTEE'S POWER AND AUTHORITY. The Committee shall have full and complete authority and power, subject only to the direction of the Board, to administer the Plan in accordance with its terms and carry out the provisions of the Plan. The Committee shall interpret the Plan and shall determine all questions, factual, legal or otherwise, arising in the administration, interpretation and application of the Plan, including but not limited to questions of eligibility and the status and rights of Participants, Beneficiaries and other persons. The Committee shall have any and all power and authority (including discretion with respect to the exercise of such power and authority) which shall be necessary, properly advisable, desirable, or convenient to enable it to carry out its duties under the Plan. By way of illustration and not limitation, the Committee is empowered and authorized to make rules and regulations in respect to the Plan not inconsistent with the Plan; to determine, consistently therewith, all questions that may arise as to the eligibility, benefits, status and right of any person claiming benefits under the Plan; to determine whether a Participant was terminated for just cause; and subject to and consistent with, any applicable laws, to make factual determinations, to construe and interpret the Plan and correct any

defect, supply any omissions or reconcile any inconsistencies in the Plan. Any such determination by the Committee shall presumptively be conclusive and binding on all persons. The regularly kept records of the Company shall be conclusive and binding upon all persons with respect to a Participant's date and length of employment, time and amount of salary and the manner of payment thereof, type and length of any absence from work and all other matters contained therein relating to employment. All rules and determinations of the Committee shall be uniformly and consistently applied to all persons in similar circumstances.

3.3 COMMITTEE'S ANNUAL REVIEW. The Committee shall review the operation of the Plan to determine its effectiveness in promoting its operating results and the shareholders' investment; further, the Committee shall report annually to the Board on its findings and make such recommendations as the Committee deems appropriate.

#### ARTICLE 4

##### EFFECTIVE DATE AND TERMINATION

The Plan shall be effective as of January 1, 1997. The Plan shall terminate on December 31, 2001, except with respect to the payment of any Incentive Compensation Awards which may become due and payable thereafter, or unless terminated earlier by action of the Board under Section 9.2.

#### ARTICLE 5

##### ELIGIBILITY AND PARTICIPATION

5.1 ELIGIBILITY. All Company officers and other key management employees who are employed by the Company on the date of the adoption of this Plan and who are specifically designated by the Committee as Participants shall be Participants in the Plan as of January 1, 1997. In addition, any officers and other key management employees who are subsequently designated by the Committee as participants shall become Participants in the Plan on the date established by the Committee for such participation. Once an employee becomes a Participant, he will remain a Participant until the earliest of: [i] termination of this Plan; [ii] termination of his active service with the Company; or [iii] termination of his status as a Participant by decision of the Committee; provided, however, that a Participant will be terminated from participation in the Plan only at the beginning of a Plan Year.

5.2 CLASSIFICATIONS OF PARTICIPANTS. Simultaneous with the Committee's designation of an employee as a Participant, the Committee shall designate in which of six (6) classifications of Participants the employee shall participate. Such Participation Classifications shall be known as "Class A," "Class B," "Class C," "Class D," "Class E," and "Class F." The Committee may change the Class designation of a Participant as of the beginning of any Plan Year.

#### ARTICLE 6

##### ANNUAL INCENTIVE COMPENSATION AWARDS

6.1 PERFORMANCE GOALS. Annual Incentive Compensation Awards to each Participant shall be determined on the basis of the achievement of the following Performance Goals:

A. The Company achieves certain Pre-tax Income for the applicable year: the "Threshold Company Goal" (90% of the Pre-tax Income target set in the applicable Budget); the "Target Company Goal" (100% of the Pre-tax Income target set in the applicable Budget); and the Maximum Company Goal" (115% of the Pre-tax Income target set in the applicable Budget) (the "Company Performance Goal[s]"). The Company Performance Goals established by the Committee for the Plan Year commencing January 1, 1997, are set forth on SCHEDULE A. The percentage of the Annual Incentive Compensation Award to each Participant which is awarded to each Participant based upon the Company Performance Goals is set forth on SCHEDULE A1 (the "Company Performance Goals Percentage").

B. In the case of Class C, E and F Participants, the Profit Center in which the Participant works achieves certain pre-tax net income levels for the applicable year: the "Threshold Profit Center Goal" (90% of the pre-tax net income set in the Profit Center's applicable Budget); the "Target Profit Center Goal" (100% of the pre-tax net income set in the Profit Center's applicable Budget); and the "Maximum Profit Center Goal" (115% of the pre-tax net income set in the Profit Center's applicable Budget) (the "Profit Center Performance Goal[s]"). The percentage of the Annual Incentive Compensation Award which is awarded to each Participant based upon the Profit Center Performance Goals is set forth on SCHEDULE A2 (the "Profit Center Performance Goals Percentage").

C. In the case of Class B and D Participants, the Service Center in which the Participant works meets certain objective financial and other criteria established by the CEO and the Senior Vice President of that Service Center for the applicable year: the "Threshold Service Center Goal" (90% of the Service Center's established criteria); the "Target Service Center Goal" (100% of the Service Center's established criteria); and the "Maximum Service Center Goal" (115% of the Service Center's established criteria) (the "Service Center Performance Goal[s]"). Achievement of the Service Center Performance Goals shall be determined in the CEO's sole discretion. The percentage of the Annual Incentive Compensation Award which is awarded to each Participant based upon the Service Center Performance Goals is set forth on SCHEDULE A3 (the "Service Center Performance Goals Percentage").

D. The Participant achieves certain performance standards particular to his or her position in the Company for the applicable year: the "Threshold Discretionary Goal" (90% of the Participant's performance standards); the "Target Discretionary Goal" (100% of the Participant's performance standards); and the "Maximum Discretionary Goal" (115% of the Participant's performance standards) (the "Discretionary Performance Goal[s]"). Achievement of the Discretionary Performance Goals shall be determined in the sole discretion of the CEO. The percentage of the Annual Incentive Compensation Award which is awarded based upon the Discretionary Performance Goals is set forth on SCHEDULE A4 (the "Discretionary Performance Goals Percentage").

6.2 COMPUTATION OF AWARD BASED UPON COMPANY PERFORMANCE GOALS.

For each Plan Year for which the Company achieves the "Threshold Company Goal", each Participant shall be awarded an Annual Incentive Compensation Award which shall be computed by multiplying: (i) the Participant's Salary for the Plan Year; by (ii) the Participation Percentage, as shown on SCHEDULE B for the Participant's Class; by (iii) the Company Performance Goals Percentage, as shown on SCHEDULE A1 for the Participant's Class; by (iv) the applicable Company Achievement Percentage Level as established annually by the Committee. The Company Achievement Percentage Levels for the Plan Year commencing January 1, 1997, are set forth on SCHEDULE C.

6.3 COMPUTATION OF AWARD BASED ON PROFIT CENTER PERFORMANCE GOALS.

For each Plan Year for which the Company achieves at least the Threshold Company Performance Goal and the Profit Center in which that Participant works achieves at least its Threshold Profit Center Performance Goal, each Class C, Class E and Class F Participant shall be awarded an Annual Incentive Compensation Award which shall be computed by multiplying: (I) the Participant's Salary for the Plan Year; by (ii) the Participation Percentage, as shown on SCHEDULE B for the Participant's class; by (iii) the Profit Center Performance Goals Percentage as shown on SCHEDULE A2 for the Participant's Class; (iv) by the applicable Profit Center Achievement Percentage Level as established annually by the Committee.

6.4 COMPUTATION OF AWARD BASED ON SERVICE CENTER PERFORMANCE GOALS.

For each Plan Year for which the Company achieves at least the Threshold Company Performance Goal and the Service Center in which that Participant works achieves at least its Threshold Service Center Performance Goal, each Class B and Class D Participant shall be awarded an Annual Incentive Compensation Award which shall be computed by multiplying: (I) the Participant's Salary for the Plan Year; by (ii) the Participation Percentage, as shown on SCHEDULE B for the Participant's Class; by (iii) the Service Center Performance Goals Percentage as shown on SCHEDULE A3 for the Participant's Class; by (iv) the applicable Service Center Achievement Percentage Level as established annually by the Committee.

6.5 COMPUTATION OF AWARD BASED ON DISCRETIONARY PERFORMANCE GOALS.

For each Plan Year for which the Company achieves at least the Threshold Company Performance Goal and that Participant achieves at least his/her Threshold Discretionary Performance Goal, a Participant may be awarded an Annual Incentive Compensation Award which shall be computed by multiplying: (I) the Participant's Salary for the Plan Year; by (ii) the Participation Percentage as shown on SCHEDULE B; by (iii) the Discretionary Performance Goals Percentage for the Participant's Class as set forth on SCHEDULE A4; by (iv) the applicable Discretionary Achievement Percentage Level as established annually by the Committee. Notwithstanding the foregoing, the Discretionary Achievement Percentage Level for any Plan Year shall not exceed the Company Achievement Percentage Level for that Plan Year. The CEO, in his/her sole discretion, shall determine whether a Participant has met Discretionary Performance Goals.

6.6 ADJUSTMENTS TO ANNUAL INCENTIVE COMPENSATION AWARD. An

Annual Incentive Compensation Award shall be adjusted by any one or more of the following adjustments:

A. In the event a Participant shall, during a Plan Year, die, retire, go on a leave of absence with the Company's consent, terminate employment due to Disability, or be terminated without just cause, the Annual Incentive Compensation Award for that Participant for such Plan Year shall be reduced, pro rata, based on the number of days in such Plan Year during which he was not a Participant.



B. In the event that during a Plan Year a Participant shall be discharged for just cause or shall voluntarily resign for any reason other than Disability, the Annual Incentive Compensation Award for that Participant shall be reduced to zero, and no Annual Incentive Compensation Award shall be payable to that Participant for such Plan Year.

#### ARTICLE 7

##### PAYMENT OF BENEFITS

7.1 METHOD OF PAYMENTS. As soon as the Committee has determined the amount of all of the Annual Incentive Compensation Awards at the end of a Plan Year, the Committee shall instruct the Company to pay each award in cash in one lump sum.

#### ARTICLE 8

##### DESIGNATION OF BENEFICIARIES

A Participant may file with the Committee a designation of a Beneficiary or Beneficiaries in writing, which designation may be changed or revoked by the Participant's sole action, provided that the change or revocation is filed with the Committee in writing. If a Participant dies, any benefit which the Participant is entitled to receive under the Plan shall be delivered to the Beneficiary or Beneficiaries so designated, or if no Beneficiary has been designated or survives the Participant, shall be delivered to the Executor or Administrator of the Participant's estate.

#### ARTICLE 9

##### MISCELLANEOUS PROVISIONS

9.1 OTHER PLANS. Any payment made under the provisions of this Plan shall be includable in or excludable from a Participant's compensation for purposes of any other qualified or nonqualified benefit plan in which the Participant may be eligible to participate by reference to the terms of such other plan.

9.2 PLAN AMENDMENT AND TERMINATIONS. The Company, acting through the Committee or the Board, reserves the right to amend and/or to terminate the Plan for any reason and at any time. Any amendment or termination of this Plan shall not affect the right of any Participant or his Beneficiary to receive an Incentive Compensation Award after it has been earned.

9.3 RIGHT TO TRANSFER, ALIENATE AND ATTACH. Except to the extent that a Participant may designate a Beneficiary under the provisions contained in Article 8, the right of any Participant or any beneficiary to any benefit or to any payment hereunder shall not be subject in any manner to attachment or other legal process for the debts of such Participant or Beneficiary; and any such benefit or payment shall not be subject to anticipation, alienation, sale, transfer, assignment or encumbrance, except to the extent that the right to such benefit is transferable by the Participant by will or the laws of descent and distribution.

9.4 INDEMNIFICATION. No member of the Board or of the Committee and no officer or employee of the Company shall be liable to any person for any action taken in connection with the administration of this Plan unless attributable to his own fraud or willful misconduct; nor shall the Company be liable to any person for any such action unless attributable to fraud or willful misconduct on the part of a director, officer or employee of the Company.

9.5 NON-GUARANTEED EMPLOYMENT. Neither the existence of this Plan nor any award or benefit granted pursuant to it shall create any right to continued employment of any Participant by the Company. No Participant shall, under any circumstances, have any interest whatsoever, vested or contingent, in any particular property or asset of the Company by virtue of any award, unpaid bonus or other accrued benefit under the Plan.

9.6 SOURCE OF PAYMENT. No special or separate fund shall be established or other segregation of assets made with respect to any immediate or deferred payment under the Plan. All payment of awards shall be made from the general funds of the Company. To the extent that a Participant or his Beneficiary acquires a right to receive payments under this Plan, such right shall be no greater than that of any unsecured general creditor of the Company.

9.7 WITHHOLDING TAXES. The Company shall have the right to deduct from all payments made to the Participant, whether pursuant to this Plan or otherwise, amounts required by federal, state or local law to be withheld with respect to any payments made pursuant to this Plan.

SCHEDULE A

FISCAL YEAR 1997 ANNUAL COMPANY PERFORMANCE GOALS

ANNUAL COMPANY PERFORMANCE LEVEL

PRE-TAX INCOME

Threshold	90% of Budget	- \$ _____
Target	100% Budget	- \$ _____
Maximum	115% of Budget	- \$ _____

SCHEDULE A1

COMPANY PERFORMANCE GOALS PERCENTAGE

CLASS	PERCENTAGE
A	100%
B	50%
C	25%
D	50%
E	25%
F	25%

SCHEDULE A2

PROFIT CENTER PERFORMANCE GOALS PERCENTAGE

CLASS	PERCENTAGE
A	0%
B	0%
C	50%
D	0%
E	50%
F	50%

SCHEDULE A3

SERVICE CENTER PERFORMANCE GOALS PERCENTAGE

CLASS	PERCENTAGE
A	0%
B	25%
C	0%
D	25%
E	0%
F	0%

SCHEDULE A4

DISCRETIONARY PERFORMANCE GOALS PERCENTAGE

CLASS	PERCENTAGE
A	0%
B	25%
C	25%
D	25%
E	25%
F	25%

SCHEDULE B

PARTICIPATION PERCENTAGE

CLASS	TARGET GOAL
A	45%
B	35%
C	35%
D	25%
E	25%
F	20%



SCHEDULE C

Company Achievement Percentage Levels ("CAPLs")

Calendar Year 1997

Pre-tax Income	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
% of Target CAPL	90%	91%	92%	93%	94%	95%	96%	97%	98%	99%	100%
	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	100%
Pre-tax Income	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
% of Target CAPL	101%	102%	103%	104%	105%	106%	107%	108%	109%	110%	111%
	105%	108%	110%	115%	118%	120%	125%	128%	130%	135%	138%
Pre-tax Income	\$ _____	\$ _____	\$ _____	\$ _____							
% of Target CAPL	112%	113%	114%	115%							
	140%	145%	148%	150%							

U.S. Dollars

YEAR	
DEC-31-1996	
JAN-01-1996	
DEC-31-1996	1
	8,209,414
	0
	5,218,236
	115,621
	0
	14,106,871
	100,025,412
	37,143,223
	80,728,966
24,849,477	0
	0
	0
	3,493,042
	44,287,838
80,728,966	
	107,858,818
107,858,818	
	86,795,218
	95,543,921
	1,064,067
	0
	337,438
	13,041,526
	4,970,000
	0
	0
	0
	0
	8,071,526
	\$2.17
	\$2.17