

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For Year Ended December 31, 1997

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

For the transition period from _____ to _____

Commission File Number 0-1469
CHURCHILL DOWNS INCORPORATED

Exact name of registrant as specified in its charter

KENTUCKY 61-0156015 State or other jurisdiction of Incorporation
or Organization IRS Employer Identification No.

700 CENTRAL AVENUE, LOUISVILLE, KENTUCKY 40208

Address of Principal Executive Offices Zip Code

Registrant's Telephone Number, Including Area Code 502-636-4400

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

NONE NONE

Title of Each Class registered 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, 1998, 7,316,936 shares of the Registrant's Common Stock were
outstanding, and the aggregate market value of the shares held by nonaffiliates
of the Registrant was \$132,000,000.

Portions of the Registrant's Proxy Statement for its Annual Meeting of
Shareholders to be held on June 18, 1998 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 62 to 63.

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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 Thoroughbred, Quarter Horse and Standardbred
horse racing. The Company conducts simulcast wagering on horse racing year-round
at its four Churchill Downs Sports Spectrum facilities ("Sports Spectrum") in
Kentucky and Indiana, as well as at its racetracks.

In November 1997, the Company formed Churchill Downs Investment
Company ("CDIC"), a wholly owned subsidiary, to oversee those investments in
which the Company participates as an equity investor and does not actively
manage the operations. Among the investments held by CDIC are Tracknet, LLC
("Tracknet"), a telecommunications service provider for the pari-mutuel and
simulcasting industries, and EquiSource, LLC ("EquiSource"), a recently formed

procurement business which will assist in the group purchasing of supplies and services for the equine industry. The Company is a minority investor in both Tracknet and EquiSource. CDIC also holds the Company's investment in Kentucky Downs, LLC, a racetrack which conducts a limited Thoroughbred race meet as well as year-round simulcasting, near Franklin, Kentucky. These investments are not material to the Company's operations at this time.

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

Churchill Downs is 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 three times, in 1988, 1991 and 1994. Churchill Downs has been selected to host the Breeders' Cup for an unprecedented fourth time, during its 1998 Fall Meet. The Breeders' Cup races are held annually, featuring \$12 million in purses, for the purpose of determining Thoroughbred champions in seven different events. Racetracks across North America compete for the privilege of hosting the Breeders' Cup races each year. Historically, hosting the Breeders Cup event has had a positive impact on the Company's annual results.

Churchill Downs annually conducts two live Thoroughbred race meetings, a Spring Meet (late April through late June) and a Fall Meet (late October through late November). Churchill Downs conducted live racing on 77 days during the year ended December 31, 1997. For 1998, Churchill Downs has received a license to conduct live racing for a total of 71 racing days on approximately the same dates as the prior year's Spring and Fall race meetings. Churchill Downs will host the Breeders' Cup on November 7, 1998. The total number of days on which Churchill Downs conducts live racing fluctuates slightly each year.

Based on average daily purse levels and average number of starters per race, Churchill Downs' 1997 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.

The Kentucky Derby and Kentucky Oaks, both annually run the first weekend in May, continue to be the Company's premier events. In 1996, the Company increased the purse for the Kentucky Derby from \$500,000-added to \$1 million-guaranteed. At that same time, the purse for the Kentucky Oaks was increased from \$300,000-added to \$500,000-guaranteed, making it the country's richest three-year-old filly race. In 1997, Kentucky Derby and Kentucky Oaks Days accounted for approximately 20.5% of total on-track pari-mutuel wagering and 25.7% of total on-track attendance in Kentucky.

More than 140,000 people attended the 1997 Kentucky Derby on May 3, the fourth-largest crowd in the Derby's 124-year history. Total wagering on the Derby Day race card, including simulcast wagering offered at over 1,000 domestic and international sites, was a record \$82.8 million. A record crowd of 92,547 attended the 1997 Kentucky Oaks on May 2, making it the second-largest attended day of racing, other than Derby Day, in North America. Wagering on the Oaks Day race card totaled a record \$21.4 million.

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 stabling 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 Paddock Pavilion, a state-of-the-art simulcast wagering facility designed to accommodate 450 patrons, opened in May 1997. 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 are available, as discussed below. The Company's physical plant is fully utilized only on those days when live racing is conducted.

CHURCHILL DOWNS SPORTS SPECTRUM

GENERAL

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 100,000-square-foot Louisville Sports

Spectrum is located on approximately 88 acres of land, about seven miles from Churchill Downs.

SIMULCAST FACILITY

The Louisville Sports Spectrum provides state-of-the art audio/visual technology, seating for approximately 3,000 persons, parking, offices and related facilities for simulcasting races in Kentucky and throughout the United States. Seven separate areas were created within the structure to accommodate the needs of a variety of patrons, from the seasoned handicapper to the novice player. The Company generally conducts simulcast wagering operations at the Louisville Sports Spectrum during periods when Churchill Downs is not operating a live race meet. However, the Louisville Sports Spectrum is open on Kentucky Derby Day and the immediately following Sunday.

TRAINING AND STABLING ANNEX

A portion of the Sports Spectrum property is used as a Thoroughbred stabling and training annex. The Company converted a 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 new sprinkled barns sufficient to accommodate approximately 500 horses, providing a year-round base of operation for many horsemen, and enabling the Company to attract new horsemen who desire to race at Churchill Downs.

LICENSING

Kentucky's racetracks, including Churchill Downs, 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. Although to some extent Churchill Downs 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 racetrack's usual and customary live racing dates. Generally, there is no substantial change from year to year in the racing dates awarded to each racetrack. As stated above, the KRC has awarded Churchill Downs a total of 71 live racing dates in 1998. A substantial change in the allocation of live racing days at Churchill Downs could impact the Company's operations and earnings in future years.

SERVICE MARKS

The Company holds federal service mark 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 also has applied for federal service mark registration of the name "Churchill Charlie." The Company licenses the use of these service marks and derives revenue from such license agreements.

PARI-MUTUEL WAGERING

ON-TRACK WAGERING

Total wagering conducted on live racing and interstate simulcast receiving at Churchill Downs during its 1997 Spring and Fall race meets totaled \$132.3 million, an increase of 2.2% from the \$129.5 million wagered in 1996. Wagering on Churchill Downs' live races was \$118.0 million in 1997, down slightly from \$119.2 million in 1996. Interstate simulcast receiving (discussed below) conducted on track at the Paddock Pavilion and in other selected areas throughout the clubhouse and grandstand during the live race meets, totaled \$14.3 million, up 38.1% from the \$10.3 million in 1996.

INTRASTATE SIMULCAST WAGERING

Churchill Downs sends its live race signal to other racetracks in Kentucky, and receives race signals from other Kentucky racetracks, for wagering purposes ("intrastate simulcasting"). Churchill Downs sends its race signal to other Kentucky racetracks on all of its live racing days ("intrastate simulcast sending"). Patrons wagering at these locations participate in the same pari-mutuel pool payouts as patrons at Churchill Downs. Intrastate simulcast wagering on Churchill Downs' live racing totaled \$40.7 million in 1997, down 13% from the \$46.7 million wagered in 1996. These totals include wagering on Churchill Downs' live races at all intrastate simulcasting and Kentucky Off-Track Betting sites in Kentucky, through the Company's in-home wagering system, and at the Louisville Sports Spectrum on Kentucky Derby Day.

Churchill Downs also participates in intrastate simulcasting by receiving race signals from other Kentucky tracks ("intrastate simulcast receiving"). Churchill Downs conducts wagering on racing held at other Kentucky racetracks on all possible dates

at its Louisville Sports Spectrum. In 1997, wagering at the Louisville Sports Spectrum on other Kentucky race signals totaled \$41.1 million, an 18.5% decrease from the \$50.4 million wagered in 1996.

INTERSTATE SIMULCAST WAGERING

Churchill Downs sends its race signal to out-of-state simulcast sites, and receives race signals from out-of-state racetracks, for wagering purposes ("interstate simulcasting"). Churchill Downs participates in interstate simulcasting by sending its live race signal to racetracks and off-track betting facilities located in other states and in foreign countries ("interstate simulcast sending"). 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 simulcast sending wagering on Churchill Downs' live races totaled \$383.5 million in 1997, an 11.7% increase from the \$343.5 million wagered in 1996. Churchill Downs plans to increase the interstate and international exportation of its live race signal in fiscal year 1998.

Churchill Downs also receives race signals from racetracks outside Kentucky ("interstate simulcast receiving"). Such simulcasting allows the Company to conduct interstate wagering daily on multiple race programs from around the country, permitting greater utilization of the Louisville Sports Spectrum asset. In 1997, wagering on out-of-state racing was conducted at the Louisville Sports Spectrum on all possible dates when Churchill Downs was not racing live. Interstate simulcast receiving was also conducted in selected areas on track during Churchill Downs' live meets, and through the Company's in-home wagering system, as discussed below. Wagering on interstate simulcast receiving at the Louisville Sports Spectrum totaled \$83 million in 1997, a 17.7% increase from the \$70.5 million wagered in 1996.

IN-HOME WAGERING

Churchill Downs, in conjunction with ODS Entertainment ("ODS") and TKR Cable of Greater Louisville, continues to operate its in-home interactive television wagering system, the first such system in the country. Testing began in July 1995, and has expanded to 1,050 homes in Jefferson County, Kentucky as of December 31, 1997. In-home patrons may wager on Churchill Downs' live racing, as well as intrastate and interstate race signals. In 1997, in-home wagering on Churchill Downs' race signal

totaled \$10.4 million, an increase of 69.2% from the \$6.1 million wagered in 1996. The Company believes development of such in-home technology can be used as an efficient delivery system that could increase business levels and attract new segments of the market to the racetrack.

The second phase of the Company's relationship with ODS will be the launching of the Television Games Network ("TVG"), which is projected in late 1998. The new network is anticipated to eventually offer 24-hour-a-day programming throughout the U.S. that will be primarily devoted to developing new fans for racing.

KENTUCKY OFF-TRACK BETTING, INC.

In 1992, the Company and three other Kentucky Thoroughbred racetracks formed Kentucky Off-Track Betting, Inc. ("KOTB"), of which the Company is a 25% shareholder. 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, Jamestown, and Pineville, Kentucky. Wagering at KOTB facilities on Churchill Downs' live racing totaled \$3.9 million in 1997, a decrease of 11.7 % from the \$4.4 million in 1996.

Simulcast facilities developed by KOTB provide additional markets for the intrastate simulcasting of Churchill Downs' live races and interstate simulcasting on out-of-state signals. By statute, of the amount retained by KOTB on wagers (net of pari-mutuel taxes) placed at a simulcast facility, 30% is set aside for the Company's horsemen and 34% is paid to a Breeders Award Fund administered by the KRC. Of the remaining 36%, KOTB operating and administrative expenses are funded by the Company during the period of time Churchill Downs is conducting live racing. KOTB did not contribute significantly to the Company's operations in 1997, and is not anticipated to have a substantial impact on operations in the future.

C. INDIANA OPERATIONS

GENERAL

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

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"), 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"). Conseco and Pegasus are limited partners of HPLP and Anderson continues to be the sole general partner of HPLP. HPLP has entered into a management agreement with CDMC 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 related to 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 its 10% partnership interest in 1996. As of December 31, 1997, HPLP has a total loan balance of approximately \$26.5 million, of which \$23.8 million is owed to CDMC. The loan bears interest of prime plus 2% (10.50% at December 31, 1997).

On May 31, 1996, the Company sold 10% of Anderson's partnership interest in HPLP to Conseco for a cash payment of \$218,390 for the 10% partnership interest and an additional cash payment of \$2,603,514 for the 10% interest in the debt owed by HPLP to CDMC at face value of debt at the date of the closing.

Conseco has an option which expires December 31, 1998, to purchase from Anderson an additional 47% partnership interest in HPLP for approximately \$6,222,000 and an additional 47% interest in the debt owed by HPLP to CDMC for approximately

\$15,934,000. This purchase would be subject to the approval of the Indiana Horse Racing Commission ("IHRC"). Should this transaction occur, Conseco 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

Hoosier Park conducts live Standardbred racing (mid April to late August), live Thoroughbred racing (mid-September to late November) and Quarter Horse racing (late October). In 1997, the Company conducted 142 days of live racing, including 85 days of Standardbred racing and 57 days of Thoroughbred racing. Quarter Horse races were conducted during a Thoroughbred race day. The Company has received a license to conduct live racing in 1998 for a total of 152 racing days, including 94 days of Standardbred racing, and 58 days of Thoroughbred racing (which also includes Quarter Horse races).

RACETRACK FACILITY

Hoosier Park is located in Anderson, Indiana, about 40 miles northeast of downtown Indianapolis. The Company leases the land under a long-term lease with the city of Anderson and owns all of the improvements on the site located at 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 stabling area. The physical plant includes seating for approximately 2,400 persons, a general admission area, and food and beverage facilities ranging from fast food to a full service restaurant. 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.

INDIANA SPORTS SPECTRUMS

HPLP owns and operates 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. 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 its fourth facility in certain counties.

LICENSING

In Indiana, licenses to conduct live Standardbred and Thoroughbred race meetings, including Quarter Horse races, and to participate in simulcasting are approved annually by the IHRC, which consists of 5 members appointed by the governor of Indiana. Licenses are approved annually by the IHRC based upon applications submitted by the Company. Currently, the Company is the only facility in Indiana licensed to conduct live Standardbred, Quarter Horse or Thoroughbred racing and to participate in simulcasting. As stated above, the IHRC has awarded Hoosier Park a total of 152 live racing dates in 1998. A substantial change in the allocation of live racing days at Hoosier Park could impact the Company's operations and earnings in future years.

PARI-MUTUEL WAGERING

ON-TRACK WAGERING

Total wagering conducted on live racing and interstate simulcast receiving at Hoosier Park during its 1997 Standardbred, Quarter Horse and Thoroughbred race meets totaled \$16.9 million, a decrease of 3.4% from the \$17.6 million wagered in 1996. Wagering on Hoosier Park's Standardbred race meet was \$5.6 million in 1997, a decrease of 14.5% from the \$6.6 million in 1996. Wagering on Hoosier Park's Thoroughbred race meet (including wagering on Quarter Horse races) was \$5.3 million in 1997, up 3.7% from the \$5.1 million in 1996. Interstate simulcast receiving, as discussed below, conducted on track at Hoosier Park during its live race meets totaled \$6 million, an increase of 3% from the \$5.9 million in 1996.

INTRASTATE SIMULCAST WAGERING

Hoosier Park simulcasts its race signal to its three Sports Spectrum facilities in Indiana. Patrons at the Sports Spectrums participate in the same pari-mutuel pool payouts as patrons at Hoosier Park. Wagering on Hoosier Park at these sites totaled \$3.6 million in 1997, an increase of 8.2% from the \$3.3 million in 1996. The Indiana Sports Spectrums also receive simulcast signals from out-of state racetracks, as discussed below.

INTERSTATE SIMULCAST WAGERING

Hoosier Park participates in interstate simulcasting by sending its race signal to out-of-state sites, and receiving race signals from out-of-state racetracks, for wagering purposes. Hoosier Park sends its live race signal to racetracks and off-track betting facilities located in other states. 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 commingled pools, or participate in separate pari-mutuel pools generated by wagering on Hoosier Park races at the respective facility.

Interstate simulcast sending wagering on Hoosier Park's live racing totaled \$39.8 million in 1997, a 46.3% increase from the \$27.2 million wagered in 1996.

Hoosier Park and its three Sports Spectrum facilities also conduct wagering on race signals from racetracks outside Indiana. Indiana law provides that as long as Hoosier Park conducts live racing for a total of not less than 120 days per year, interstate simulcast receiving wagering can be conducted year round at each of these facilities. Wagering on interstate simulcast receiving totaled \$130 million in 1997, a 1.3% decrease from the \$131.7 million wagered in 1996.

D. SOURCES OF INCOME

The Company's primary sources of income are commissions and fees earned from pari-mutuel wagering on live and simulcast horse races which accounted for 67% of total revenue in 1997. The Company retains the following average amounts on revenue streams as a percentage of handle:

	KENTUCKY		INDIANA	
	Commissions/ Fees (1)	Net Retainage (2)	Commissions/ Fees (1)	Net Retainage (2)
On-track live racing	14.8%	6.9%	18.0%	10.0%
On-track interstate simulcasting receiving	17.1%	7.0%	18.3%	10.0%
Intrastate simulcast sending	6.9%	4.1%	17.3%	12.3%
Intrastate simulcast receiving	8.7%	4.9%	-	-
Interstate simulcast sending	3.2%	1.6%	2.8%	1.4%
Interstate simulcast receiving	10.2%	3.5%	17.1%	8.9%

(1) Commission from pari-mutuel wagers and fees from simulcasting net of pari-mutuel taxes as applicable (2) Net of pari-mutuel taxes, purses to horsemen and simulcast fees

Other sources of income include admissions and seating, concession commissions (primarily for the sale of food and beverage items), riverboat admission tax supplement, license, rights and broadcast fees and sponsorship revenues.

E. OTHER FACTORS AFFECTING THE COMPANY'S BUSINESS

In 1997, the North American bloodstock market rebounded dramatically from its decade long slump, marking its strongest year ever in terms of gross revenue spent at public auction. According to THE BLOOD-HORSE magazine, expenditures for Thoroughbred weanlings, yearlings, 2- year-olds and broodmares totaled \$693 million in 1997 compared to \$611 million in 1996. The total also surpassed the previous record of \$683 million recorded in 1983. Beginning in 1995, the number of Thoroughbred foals born each year had also begun to show an increase. These recent increases in bloodstock prices and number of foals are indicators of a resurgence of the Thoroughbred breeding industry, reversing a trend of declines experienced from 1986 to 1995. These declines ultimately resulted in a decrease in the number of Thoroughbreds available to run in races that forced racetracks to compete for horses to participate in live racing, and in some cases to curtail or eliminate live racing and rely more heavily or exclusively on simulcast receiving for revenue. Churchill Downs and Hoosier Park were able to effectively compete for horses and experienced a high quality of racing in 1997. In 1997, average daily purses of \$387,760 per day at Churchill Downs ranked among the highest in the nation, and the Company believes this attracted many of the country's top horses and

trainers. Purse increases at Hoosier Park in 1997 strengthened both its Thoroughbred and Standardbred racing programs, and created greater demand from horsemen to race at the Indiana track. Average daily purses of \$152,695 resulted in competitive race fields for Hoosier Park's Thoroughbred meet, while average daily purses of \$124,241 during its Standardbred meet ranked Hoosier Park second behind only The Meadowlands in New Jersey in terms of purse levels. Based on the competitiveness of its racing products in Kentucky and Indiana, the Company is well positioned to grow its share of the interstate simulcast market.

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 sports, entertainment and gaming options, including riverboat casinos and lotteries, for patrons for both live racing and simulcasting (For a further discussion of the Company's competitive environment, see "Management Discussion and Analysis of Financial Condition and Results of Operations").

The Company has successfully grown its live racing product and positioned itself to compete by strengthening its flagship operations, increasing its share of the interstate simulcast market, and geographically expanding its racing operations into Indiana. The Company also continues to pursue legislation to allow video lottery terminals at its racetrack facilities in Kentucky and Indiana as a means to attract new patrons and generate additional revenue for purses and capital investment.

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, 1997 and additional costs of remediation have not yet been conclusively determined. The sellers have now received a reimbursement from the State of Kentucky of \$995,000 for remediation costs and that amount is now being held in an escrow account to pay further costs of remediation. Approximately \$985,000 remains in the account. In addition to the hold back, the Company has obtained an indemnity to cover the full cost of remediation from the prior owner of the 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. In conjunction with

the purchase, Hoosier Park withheld \$50,000 from the amount due to the seller to offset costs related to remediation of the contamination. 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 cost of remediation is not expected to exceed \$50,000. In addition to the hold back, the Company has obtained an indemnity to cover the full cost of remediation from the prior owner 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 any of the Company's property. Except as discussed herein, 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

The Company employs approximately 325 full-time employees. Due to the seasonal nature of the Company's live racing business, the number of seasonal and part-time persons employed will vary throughout the year, with peak employment occurring Kentucky Derby week when the Company employs as many as 2,600 persons. During 1997, average employment per pay period was approximately 900 individuals.

ITEM 2. PROPERTIES

Information concerning property owned by the Company or its subsidiaries 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, 1998, 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:

	1997 - BY QUARTER				1996 - BY QUARTER			
	1ST	2ND	3RD	4TH	1ST	2ND	3RD	4TH
High Bid	\$18.50	\$19.00	\$21.00	\$23.38	\$20.00	\$22.00	\$18.75	\$18.25
Low Bid	\$16.00	\$16.50	\$16.25	\$20.75	\$16.00	\$18.00	\$17.00	\$17.00

Dividend per share:

Annual	\$.25
Special	\$.08

Stock quotations and dividend per share amounts reflect retroactive adjustments for the 2-for-1 stock split with a record date of March 30, 1998.

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. CONSOLIDATED SELECTED FINANCIAL DATA

	Year Ended December 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995	Year Ended December 31, 1994	Eleven Months Ended December 31, 1993
	-----	-----	-----	-----	-----
Operations:					
Net revenues	\$118,907,367	\$107,858,818	\$92,434,216	\$66,419,460	\$55,809,889
Operating income	\$14,405,288	\$12,314,897	\$10,305,210	\$9,861,086	\$8,959,220
Net earnings	\$9,148,560	\$8,071,526	\$6,203,135	\$6,166,353	\$5,906,034
Basic net earnings per share*	\$1.25	\$1.08	\$.82	\$.82	\$.78
Diluted net earnings per share*	\$1.25	\$1.08	\$.82	\$.82	\$.78
Dividend paid per share					
Annual	\$.25	\$.25	\$.25	\$.25	\$.25
Special	\$.25	\$.08	-	-	-
At Period End:					
Total assets	\$85,848,808	\$80,728,966	\$77,486,482	\$70,175,840	\$56,819,959
Working capital (deficiency)	\$(8,032,492)	\$(10,789,190)	\$(10,433,929)	\$(10,131,254)	\$(776,756)
Long-term debt	\$2,712,969	\$2,999,191	\$6,421,176	\$8,683,314	\$583,090
Stockholders' equity	\$53,392,497	\$47,780,880	\$46,653,157	\$42,003,147	\$36,995,853
Stockholders' equity per share	\$7.30	\$6.54	\$6.17	\$5.55	\$4.90
Additions to racing plant and equipment	\$4,568,494	\$2,570,795	\$8,589,535	\$23,310,204	\$1,409,888

* Earnings per share data for prior periods has been restated to reflect the adoption of Statement of Financial Accounting Standards No. 128, "Earnings Per Share".

Earnings, dividend and stockholders' equity per share amounts have been retroactively adjusted for the 2-for-1 stock split with a record date of March 30, 1998.

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.

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

GENERAL INFORMATION

This discussion and analysis includes a forecast of future results of operations. Such a forecast is a "forward-looking statement" under the federal securities laws. Actual results could differ materially from this forecast and there can be no assurance that such forecast of future results will be achieved. Important factors that could cause actual results to differ materially from the presently estimated amounts include: the continued ability of the Company to effectively compete for the country's top horses and trainers necessary to field high-quality horse racing; the continued ability of the Company to grow its share of the interstate simulcast market; a substantial change in allocation of live racing days; the impact of competition from alternative gaming (including riverboat casinos and lotteries) and other sport and cultural options in those markets in which the Company operates; a decrease in riverboat admissions revenue from the Company's Indiana operations; and the Company's success in its pursuit of strategic initiatives designed to attract new patrons and generate additional revenue for purses and capital investment.

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 Thoroughbred, Quarter Horse and Standardbred horse racing. The Company conducts simulcast wagering on horse racing year-round at its four Churchill Downs Sports Spectrum facilities ("Sports Spectrum") in Kentucky and Indiana, as well as its racetracks.

In November 1997, the Company formed Churchill Downs Investment Company ("CDIC"), a wholly owned subsidiary, to oversee those investments in which the Company participates as an equity investor and does not actively manage the operations. Among the investments held by CDIC are Tracknet, LLC ("Tracknet"), a telecommunications service provider for the pari-mutuel and simulcasting industries, and EquiSource, LLC ("EquiSource"), a recently formed procurement business which will assist in the group purchasing of supplies and services for the equine industry. The Company is a minority investor in both Tracknet and EquiSource. CDIC also holds the Company's investment in Kentucky Downs, a racetrack which conducts a limited Thoroughbred race meet as well as year-round simulcasting, near Franklin, Kentucky. These investments are not material to the Company's operations at this time.

The Company's primary sources of income are commissions and fees earned from pari-mutuel wagering on live and simulcast horse races. Other sources of income include admissions and seating, concession commissions (primarily for the sale of food and beverages), riverboat admission tax supplement, license, rights and broadcast fees and sponsorship revenues.

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Kentucky's racetracks, including Churchill Downs, 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 are approved annually by the KRC based upon applications submitted by the racetracks in Kentucky. Although to some extent Churchill Downs 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 racetrack's usual and customary live racing dates. Generally, there is no substantial change from year to year in the racing dates awarded to each racetrack. Churchill Downs conducted live racing on 77 days during the year ended December 31, 1997. For 1998, Churchill Downs has received a license to conduct live racing for a total of 71 racing days on approximately the same dates as the prior year's Spring and Fall race meetings. The total number of days on which Churchill Downs conducts live racing fluctuates annually according to the calendar year. A substantial change in the allocation of live racing days at Churchill Downs could impact the Company's operations and earnings in future years.

Churchill Downs will host Breeders' Cup Day on November 7, 1998. Breeders' Cup Limited is a tax-exempt organization chartered to promote Thoroughbred racing and breeding. The Breeders' Cup Day races are held annually, featuring \$12 million in purses, for the purpose of determining Thoroughbred champions in seven different events. Racetracks across the United States compete for the privilege of hosting the Breeders' Cup Day races each year. The Breeders' Cup Day races were held in California in November 1997. Hosting the event in 1998 may have a positive impact on the Company's 1998 results.

In Indiana, licenses to conduct live Standardbred and Thoroughbred race meetings, including Quarter Horse races, and to participate in simulcasting are approved annually by the Indiana Horse Racing Commission ("IHRC"), which consists of 5 members appointed by the governor of Indiana. Licenses are approved annually by the IHRC based upon applications submitted by the Company. Currently, the Company is the only facility in Indiana licensed to conduct live Standardbred, Quarter Horse or Thoroughbred racing and to participate in simulcasting. In 1997, the Company conducted 142 days of live racing, including 85 days of Standardbred racing and 57 days of Thoroughbred racing. Quarter Horse races were conducted during a Thoroughbred race day. The Company has received a license to conduct live racing in 1998 for a total of 152 racing days, including 94 days of Standardbred racing, and 58 days of Thoroughbred racing (which also includes Quarter Horse races). A substantial change in the allocation of live racing days at Hoosier Park could impact the Company's operations and earnings in future years.

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The Company employs approximately 325 full-time employees. Due to the seasonal nature of the Company's live racing business, the number of seasonal and part-time persons employed will vary throughout the year, with peak employment occurring Kentucky Derby week when the Company employs as many as 2,600 persons. During 1997, average employment per pay period was approximately 900 individuals.

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 sports, entertainment and gaming options, including riverboat casinos and lotteries, for patrons for both live racing and simulcasting. 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. Illinois had previously authorized riverboat gaming. There are currently four riverboat casinos operating on the Ohio River along Kentucky's border -- two in the southeastern Indiana cities of Lawrenceburg and Rising Sun, one in southwestern Indiana in Evansville and one at Metropolis, Illinois.

Direct competition with these riverboats has negatively impacted wagering at Churchill Downs and other racetracks in western and northern Kentucky. However, Churchill Downs reversed this trend in 1997 with the increase in attendance and wagering experienced during its 1997 Spring and Fall Meets, due primarily to an aggressive on-track marketing program, and further expansion of interstate simulcasting.

One, and possibly two, additional riverboats are anticipated to open along the Indiana shore of the Ohio River. In May 1996, the Indiana Gaming Commission awarded a preliminary license to RDI/Caesars World to operate the world's largest riverboat casino in Harrison County, Indiana, just 10 miles from Louisville. A construction permit was issued to RDI/Caesars World by the U.S. Army Corps of Engineers in February 1998, and they have announced that the riverboat will open in the summer of 1998. However, the U.S. Environmental Protection Agency is now conducting a separate review of the Corps' decision, and its recommendation could result in further delays for the project. The Indiana Gaming Commission voted in December 1997 to postpone indefinitely the

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granting of a license to open a fifth Indiana riverboat along the Ohio River in either Crawford County or Switzerland County, within 30 or 70 miles, respectively, of Louisville.

The full impact of riverboat casinos on Kentucky racing cannot be accurately determined until all riverboats are open and the markets are fully matured. Studies project that Churchill Downs could experience a material adverse impact on its wagering and attendance in the Louisville market when the Caesars World riverboat is open and mature. These same studies projected similar declines in western and northern Kentucky but recent experience at Ellis Park and Turfway Park indicates the impact may not be as severe as these studies projected.

In addition to those riverboats operating along the Ohio River, five riverboat casinos have opened along the Indiana shore of Lake Michigan near the Company's Sports Spectrum in Merrillville, Indiana. The Company's pari-mutuel wagering activities at the Merrillville facility have been adversely impacted by the opening of these Lake Michigan riverboats.

Additionally, the Potawatomi Indian Tribe has expressed an interest in establishing land-based casino operations in northeastern Indiana. At this time, proposed changes to the Indian Gaming Regulatory Act could have an impact on compact negotiations between the Potawatomi Tribe and the state of Indiana. The Company continues to anticipate that development of any such Indian casino operations will negatively impact pari-mutuel wagering activities at its Indiana facilities. However, 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 continues to pursue legislation to allow video lottery terminals at its racetrack facilities in Kentucky and Indiana. The integration of alternative gaming products is one of four core business strategies developed by the Company to position itself to compete in this changing environment. Implementing these strategies, the Company has successfully grown its live racing product by strengthening its flagship operations, increasing its share of the interstate simulcast market, and geographically expanding its racing operations into Indiana. Alternative gaming in the form of video lottery terminals and slot machines should enable Churchill Downs to more effectively compete with Indiana riverboat casinos, and provide new revenue for purse money and capital investment. Currently, Churchill Downs is working with members of the Kentucky horse industry to establish a consensus for a plan to operate video lottery terminals exclusively at Kentucky's racetracks.

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The horse industry in Indiana presently receives \$.65 per \$3 admission to riverboats in the state to compensate for the effect of riverboat competition. Riverboat admissions revenue from the Company's Indiana operations increased \$7.9 million as a result of the opening of additional riverboats along the Ohio River and Lake Michigan since December 31, 1996. The net increase in riverboat admissions revenue, after required purse and marketing expense increases of approximately \$4.9 million, is \$3.0 million. Legislation challenging the allocation of the \$.65 subsidy was introduced to the Senate Finance Committee in the recent session of the Indiana General Assembly, but the bill did not pass out of the committee. A change in Hoosier Park's share of the tax would significantly impact funding for operating expenditures and would in all likelihood reemphasize the need for the integration of alternative gaming products at the racetrack in order for it to effectively compete with riverboat casinos.

The Company owned and operated two live racing facilities and four simulcast wagering facilities during the years ended December 31, 1997 and 1996. The chart below summarizes the attendance and wagering handle for the operations in 1997 and 1996:

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	KENTUCKY			INDIANA		
	Year Ended December 31, 1997	Year Ended December 31, 1996	Increase/ Decrease	Year Ended December 31, 1997	Year Ended December 31, 1996	Increase/ Decrease
ON-TRACK						
No. of Race Days	77	78	-1	142	132	10
Attendance	913,723	903,132	1%	169,709	168,849	1%
Handle	\$132,290,238	\$129,484,436	2%	\$16,937,138	\$ 17,530,325	-3%
Average daily attendance	11,867	11,579	2%	1,195	1,279	-7%
Average daily handle	\$1,718,055	\$1,660,057	3%	\$119,276	\$132,805	-10%
Per capita handle	\$144.78	\$143.37	1%	\$99.81	\$103.84	-4%
INTRASTATE SIMULCAST SENDING						
No. of Race Days	77	78	-1	-	-	-
Handle	\$40,650,783	\$46,731,083	-13%	-	-	-
Average daily handle	\$527,932	\$599,116	-12%	-	-	-
INTERSTATE SIMULCAST SENDING						
No. of Race Days	77	78	-1	142	132	10
Handle	\$383,542,874	\$343,482,505	12%	\$39,771,724	\$27,193,841	46%
Average daily handle	\$4,981,076	\$4,403,622	13%	\$280,083	\$206,014	36%
INTRASTATE SIMULCAST RECEIVING						
No. of Race Days	212	200	12	-	-	-
Handle	\$41,051,472	\$50,384,375	-19%	-	-	-
Average daily handle	\$193,639	\$251,922	-23%	-	-	-
INTERSTATE SIMULCAST RECEIVING*						
No. of Race Days	212	200	12	1,215	1,192	23
Handle	\$83,033,566	\$70,537,608	18%	\$130,019,991	\$131,715,597	-1%
Average daily handle	\$391,668	\$352,688	11%	\$107,012	\$110,500	-3%
Total handle	\$680,568,933	\$640,620,007	6%	\$186,728,853	\$176,439,763	6%

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

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Total handle in Kentucky increased approximately \$39.9 million (6%) primarily as a result of a \$40 million (12%) increase in interstate simulcast sending wagering. The Company's live races at Churchill Downs were transmitted to a record number of outlets across the nation during 1997. Additionally, the construction of an on-site simulcast wagering facility at Churchill Downs used during live racing as well as growth at the Louisville Sports Spectrum generated increases in interstate simulcast receiving handle of \$12.5 million (18%) which also contributed to the overall increase in Kentucky handle.

In Indiana, total handle increased approximately \$10.3 million (6%) primarily as a result of a 46% increase in interstate simulcast sending handle. The number of live race days in Indiana increased 10 days and were transmitted to more outlets across the nation in 1997. Conversely, on-track average daily attendance and average daily handle figures decreased by 7% and 10%, respectively.

COMPARISON OF YEAR ENDED DECEMBER 31, 1997 TO 1996

NET REVENUES

Net revenues during the year ended December 31, 1997 increased \$11.0 million (10%) to \$118.9 million.

Pari-mutuel revenues increased \$3.4 million (4%) with interstate simulcast sending and receiving revenues contributing \$1.6 and \$1.7 million, respectively, to the total increase. Increased interstate simulcast receiving revenues in Kentucky were generated as a result of the new Paddock Pavilion simulcast wagering facility at Churchill Downs used during live racing in Kentucky as well as growth at the Louisville Sports Spectrum. Indiana Sports Spectrums also experienced an overall growth in wagering which contributed to the increase in interstate simulcast receiving revenues as well.

The net increase in riverboat admissions revenue from the Company's Indiana operations was \$3.0 million as a result of the opening of additional riverboats along the Ohio River and Lake Michigan since December 31, 1996. The riverboat admissions revenue increase of \$7.9 million was partially offset by increases of \$4.9 million of required purse and marketing expenses associated with the riverboat admission subsidy.

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Concession commission revenues declined \$500,000 (19%) as a result of concession price reductions as part of the Company's aggressive on-track marketing program in Kentcuky.

Following is a summary of Net Revenues:

NET REVENUE SUMMARY						
	Year Ended December 31, 1997	% To Total Revenue	Year Ended December 31, 1996	% To Total Revenue	1997 VS. 1996 \$ Change	1996 %
Pari-Mutuel Revenue						
On-track	\$22,628,807	19%	\$22,228,465	21%	\$400,342	2%
Intrastate Sending	6,961,803	6	6,875,000	6	86,803	1
Interstate Sending	13,370,372	11	11,794,255	11	1,576,117	13
Intrastate Receiving	4,839,827	4	5,173,803	5	(333,976)	-6
Interstate Receiving	31,321,966	27	29,644,245	27	1,677,721	6
	\$79,122,775	67%	\$75,715,768	70%	\$3,407,007	4%
Riverboat Admission, Promotion & Purse Revenue	12,741,531	11	4,809,484	5	7,932,047	165
Admission & Seat Revenue	12,302,467	10	12,252,044	11	50,423	-
License, Rights, Broadcast & Sponsorship Fees	6,134,653	5	5,921,797	6	212,856	4
Concession Commission	2,063,849	2	2,559,736	2	(495,887)	-19
Program Revenue	2,939,150	2	3,128,491	3	(189,341)	-6
Other	3,602,942	3	3,471,498	3	131,444	4
	\$118,907,367	100%	\$107,858,818	100%	\$11,048,549	10%

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OPERATING EXPENSES

Total operating expenses increased \$8.5 million (10%) during the year ended December 31, 1997. Gross profit increased \$2.3 million (11%) during the same period but remained relatively flat as a percentage of net revenues.

Purse expense increased \$5.3 million (15%) with riverboat purses contributing \$3.9 million (156%) to the total increase. In Kentucky and Indiana, all other 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. Accordingly, on-track, intrastate and interstate simulcast purses reflect changes in direct proportion to changes in pari-mutuel revenues for the same categories. The increases in interstate simulcast sending and interstate simulcast receiving of \$819,000 and \$426,000, respectively, are directly related to the increases in net revenues for the same categories.

Wages and contract labor increased \$1.2 million (7%) but decreased from 20% to 19% of total operating expenses. Salary increases resulting from increased business activity and general cost of living increases account for a significant portion of the variance.

Simulcast host fees increased primarily as a result of expansion of interstate simulcast receiving wagering during the live race meets in Kentucky.

Advertising, marketing and publicity expenses increased \$1.2 million (30%) primarily as a result of an increase in marketing expenses in Indiana of \$1 million which were reimbursed from the riverboat admissions subsidy.

Audio, video and signal distribution expense increase of \$483,000 represent costs associated with sending the Company's live racing products to a greater number of sites and additional equipment for enhanced and expanded areas for simulcast receiving wagering in Kentucky.

Depreciation expense increased \$250,000 as a result of property and equipment additions during 1997. Amortization expense decreased \$505,000 as a result of organization and preopening costs associated with the Company's Indiana operations becoming fully amortized.

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Following is a summary of Operating Expenses:

OPERATING EXPENSE SUMMARY						
	Year Ended December 31, 1997	% To Total Expense	Year Ended December 31, 1996	% To Total Expense	1997 VS. 1996 \$ % Change Change	
Purses:						
On-track	\$11,703,355	12%	\$11,560,896	13%	\$142,459	1%
Intrastate Sending	3,263,863	4	3,191,280	4	72,583	2
Interstate Sending	6,807,315	7	5,987,877	7	819,438	14
Intrastate Receiving	2,077,244	2	2,183,970	3	(106,726)	-5
Interstate Receiving	9,423,476	10	8,997,908	10	425,568	5
Riverboat	6,443,121	7	2,517,212	3	3,925,909	156
	-----	-----	-----	-----	-----	-----
	\$39,718,374	42%	\$34,439,143	40%	\$5,279,231	15%
Wages and Contract Labor	18,521,052	19	17,283,823	20	1,237,229	7
Simulcast Host Fee	7,848,910	8	7,286,133	8	562,777	8
Advertising, Marketing & Publicity	5,062,907	5	3,887,826	5	1,175,081	30
Racing Relations & Services	1,879,062	2	1,803,256	2	75,806	4
Totalisator Expense	1,523,350	2	1,506,146	2	17,204	1
Audio, Video and Signal Distribution Expense	2,208,287	2	1,725,585	2	482,702	28
Program Expense	2,358,467	2	2,463,441	3	(104,974)	-4
Depreciation & Amortization	4,558,761	5	4,814,114	5	(255,353)	-5
Insurance, Taxes & License Fees	2,633,896	3	2,513,002	3	120,894	5
Maintenance	1,745,524	2	1,875,191	2	(129,667)	-7
Utilities	2,647,574	3	2,840,312	3	(192,738)	-7
Facility Rent	837,722	1	842,930	1	(5,208)	-1
Other Meeting Expense	3,880,210	4	3,597,077	4	283,133	8
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	\$95,424,096	100%	\$86,877,979	100%	\$8,546,117	10%
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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by \$412,000 (5%) during the year ended December 31, 1997 to \$9.1 million which represents a decline of approximately one-half percent as a percentage of net revenues.

OTHER INCOME AND EXPENSE

Interest income of \$575,000 in 1997 increased by \$184,000 as a result of the additional earnings generated by the Company from its short-term cash investments (cash equivalents). Miscellaneous income decreased by \$348,000 in 1997 primarily as the result of the gain recognized on Conseco's acquisition of 10% of Hoosier Park in 1996.

INCOME TAX PROVISION

Income tax provision increased by \$855,000 in 1997 as the result of an increase in pre-tax earnings of \$1.9 million. The effective income tax rate increased slightly from 38.1% to 38.9%.

COMPARISON OF YEAR ENDED DECEMBER 31, 1996 TO 1995

REVENUES

Net revenues during the year ended December 31, 1996 increased \$15.4 million (17%) to \$107.9 million.

Pari-mutuel revenues increased \$10 million (15%) with interstate simulcast sending and receiving revenues contributing \$3.5 and \$6.2 million, respectively, to the total increase. The Company's live races in both Kentucky and Indiana were transmitted to a record number of outlets in 1996 contributing to the increase in interstate simulcast sending revenues. All of the Indiana wagering facilities were fully operational in 1996 which led to a majority of the increase in interstate simulcast receiving revenues. Additional growth in wagering at the Louisville Sports Spectrum also contributed to the increase in interstate simulcast receiving.

The net increase in riverboat admissions revenue from the Company's Indiana operations was \$1.9 million. Gross revenues of \$4.8 million resulting from the opening of several

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riverboats along the Ohio River and Lake Michigan were offset partially by \$2.9 million in related riverboat purse and marketing expenses.

Other revenues increased as additional space was added for corporate patrons for the Kentucky Derby and Oaks Days.

Following is a summary of Net 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	\$22,228,465	21%	\$22,492,464	24%	(\$263,999)	-1%
Intrastate Sending	6,875,000	6	6,451,715	7	423,285	7
Interstate Sending	11,794,255	11	8,316,380	9	3,477,875	42
Intrastate Receiving	5,173,803	5	5,020,915	6	152,888	3
Interstate Receiving	29,644,245	27	23,420,716	25	6,223,529	27
	-----	----	-----	----	-----	----
	\$75,715,768	70%	\$65,702,190	71%	\$10,013,578	15%
Riverboat Admissions						
Promotion & Purse Revenue	4,809,484	4	-	-	4,809,484	100
Admission & Seat Revenue	12,252,044	11	12,243,245	13	8,799	-
License, Rights, Broadcast & Sponsorship Fees	5,921,797	5	5,642,092	6	279,705	5
Concession Commission	2,559,736	2	2,610,658	3	(50,922)	-2
Program Revenue	3,128,491	3	2,931,315	3	197,176	7
Other	3,471,498	3	3,304,716	4	166,782	5
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	\$107,858,818	100%	\$92,434,216	100%	\$15,424,602	17%
	=====	=====	=====	=====	=====	=====

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OPERATING EXPENSES

Total operating expenses increased \$13.1 million (18%) during the twelve month period. Gross profit increased \$2.6 million (14%) during the same period but remained relatively flat as a percentage of net revenues, decreasing from 20.2% to 19.6% through December 31, 1996.

Purse expense increased by \$6.8 million (25%) with riverboat purses contributing \$2.5 million (100%) to the total increase. In Kentucky and Indiana, all other 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. Accordingly, on-track, intrastate and interstate simulcast purses reflect changes in direct proportion to changes in pari-mutuel revenues for the same categories. The increases in interstate simulcast sending and interstate simulcast receiving of \$1.9 million and \$2.1 million, respectively, are directly related to the increases in net revenues for the same categories.

Wages and Contract Labor decreased from 22% of total operating expenses in 1995 to 20% in 1996 despite increases of \$1.4 million primarily due to staff expansion in Kentucky and Indiana 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.

Simulcast Host Fee and Totalisator expenses increased \$1.7 million and \$413,000, 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.

The increase of \$721,000 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.

Program expenses increased \$428,000 in 1996 primarily due to increased attendance at the satellite wagering facilities in Indiana. In addition, higher paper costs in Kentucky added to the increase.

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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 \$405,000 as a new property insurance carrier was selected and general liability rates declined.

Facility rent increased \$843,000 due to lease expense on the Indianapolis, Indiana off-track wagering facility operating for a full year in 1996.

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Following is a summary of Operating Expenses:

OPERATING EXPENSE SUMMARY						
	Year Ended December 31, 1996	% To Total Expense	Year Ended December 31, 1995	% To Total Expense	1996 VS. 1995 \$ Change	1995 % Change
Purses						
On-track	\$11,560,896	13%	\$11,601,141	16%	(\$40,245)	-
Intrastate Sending	3,191,280	4	2,949,510	4	241,770	8%
Interstate Sending	5,987,877	7	4,136,917	6	1,850,960	45
Intrastate Receiving	2,183,970	3	2,108,845	3	75,125	4
Interstate Receiving	8,997,908	10	6,855,068	9	2,142,840	31
Riverboat	2,517,212	3	-	-	2,517,212	100
	<u>\$34,439,143</u>	<u>40%</u>	<u>\$27,651,481</u>	<u>38%</u>	<u>\$6,787,662</u>	<u>25%</u>
Wages and Contract Labor	17,283,823	20	15,897,434	22	1,386,389	9
Simulcast Host Fee	7,286,133	8	5,561,467	7	1,724,666	31
Advertising, Marketing & Publicity	3,887,826	5	3,166,951	4	720,875	23
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
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	4,814,114	5	4,506,427	6	307,687	7
Insurance, Taxes & License Fees	2,513,002	3	2,918,327	4	(405,325)	-14
Maintenance	1,875,191	2	1,882,997	3	(7,806)	-
Utilities	2,840,312	3	2,511,310	3	329,002	13
Facility Rent	842,930	1	-	-	842,930	100
Other Meeting Expense	3,597,077	4	3,415,095	5	181,982	5
	<u>\$86,877,979</u>	<u>100%</u>	<u>\$73,768,482</u>	<u>100%</u>	<u>\$13,109,497</u>	<u>18%</u>

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased by \$305,000 (4%) during the year ended December 31, 1996 to \$8.7 million which represents a decline of one percent as a percentage of net revenues from 9.0% to 8.0%. Higher equipment lease expenses and development costs related to legislative initiatives were offset by reduced spending on other development projects.

OTHER INCOME AND EXPENSE

Interest income of \$391,000 in 1996 increased by \$157,000 as a result of the additional earnings generated by the Company from its short-term cash investments (cash equivalents). Interest expense was reduced \$235,000 to \$337,000 as positive cash flow from operations has allowed the Company to pay down its line of credit. Miscellaneous income increased by \$385,000 in 1996 primarily as the result of the gain recognized on Consecos acquisition of 10% of Hoosier Park in 1996.

INCOME TAX PROVISION

The income tax provision increased by \$919,000 in 1996 as the result of an increase in pre-tax earnings of \$2.8 million. The effective income tax rate decreased from 39.5% to 38.1%.

SIGNIFICANT CHANGES IN THE BALANCE SHEET DECEMBER 31, 1997 TO DECEMBER 31, 1996

The cash and cash equivalent balances at December 31, 1997 of \$9.3 million were \$1.1 million higher than December 31, 1996 based primarily upon the increased earnings of the Company.

Accounts receivable at December 31, 1997 increased by \$2 million due primarily to the increase in the Indiana riverboat admissions tax receivable resulting from the additional Indiana riverboats being open for a longer period of time in 1997 versus 1996.

Other assets at December 31, 1997 increased by \$1.9 million due primarily to the Company's ownership investment in and loan to BC Racing Group, LLC totaling \$2.2 million partially offset by accumulated amortization of organization costs.

The cost of plant and equipment increased by \$4.5 million due to the construction of a new on-site simulcast facility at Churchill Downs as well as routine capital spending throughout the Company. This was offset by approximately \$4.2 million in depreciation expense.

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Dividends payable of \$3.7 million represents the annual and special dividends and increased by \$1.3 million due to the special dividend declaration of \$.25 per share in 1997 versus \$.08 per share in 1996.

Income taxes payable decreased by \$2.3 million in 1997 due primarily to the timing of estimated tax payments made throughout the year.

Deferred revenue increased by \$833,000 primarily as a result of increased ticket prices for the 1998 Kentucky Derby and Oaks Days.

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.

The cost of plant and equipment increased by \$2.6 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 \$3.6 million mostly due to increases in purses payable related to the increase in simulcast revenue.

Income taxes payable which relates to the estimated expense due for the twelve month period, less any estimated tax payments, increased \$1.5 million due to an increase in earnings and the timing of federal and state income tax payments.

Long-term debt was \$3.5 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 to \$2.4 million due to the special dividend declaration of \$.08 per share in 1996.

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On May 7, 1996 the Company purchased 117,300 shares of common stock at a total cost of \$2,346,001. On August 2, 1996 the Company issued 7,818 shares of common stock to employees under its Stock Purchase Plan for total proceeds of \$112,970. Additionally, on September 27, 1996 the Company purchased 151,200 shares of common stock at a total cost of \$2,608,192. These purchases had a positive effect on earnings per share, adding \$.02 to earnings per share for the year ended December 31, 1996.

LIQUIDITY AND CAPITAL RESOURCES

Working capital as of December 31, 1997, 1996 and 1995 follows:

	1997 -----	1996 -----	1995 -----
Deficiency in working capital	\$(8,032,492)	\$(10,789,190)	\$(10,433,929)
Working Capital ratio	.68 to 1	.57 to 1	.45 to 1

The working capital deficiency results from the nature and seasonality of the Company's business. Cash flows provided by operations were \$10,470,197, \$15,126,115 and \$16,540,123 for the years ended December 31, 1997, 1996 and 1995, respectively. The decrease of \$4.7 million in 1997 is primarily the result of the timing of accounts payable, income taxes payable and accrued expense balances. Management believes cash flows from operations during 1998 will be substantially in excess of the Company's disbursements for the year, including debt repayments and capital improvements.

Cash flows used in investing activities were \$6,905,994, \$2,570,795 and \$9,051,071 for the years ended December 31, 1997, 1996 and 1995, respectively. The increase of \$4.3 million in 1997 in cash used for investing is primarily due to the 24% ownership investment in and loan to BC Racing Group, LLC of \$2.2 million and additional capital spending for the construction of a new on-site simulcast facility in Kentucky. In 1995, the Company funded \$6.5 million to construct three satellite wagering facilities in Indiana and improvements which allowed for Thoroughbred racing at Hoosier Park.

Cash flows used in financing activities were \$2,493,384, \$10,202,094 and \$4,153,897 for the years ended December 31, 1997, 1996 and 1995, respectively. The decrease of \$7.7 million in 1997 in cash used for financing is the result of a \$5 million repurchase of stock and the reduction of the Company's line-of-credit balance in 1996.

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The Company has a \$20,000,000 unsecured line-of-credit all of which is available at December 31, 1997 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.

IMPACT OF THE YEAR 2000 ISSUE

The Company has conducted a comprehensive review of its computer systems to identify the systems that could be affected by the Year 2000 Issue and has developed a comprehensive plan to resolve the issue. The Year 2000 Issue is the result of computer programs that fail to utilize the full four-digit representation of a year which would cause date-sensitive software to recognize a date using "00" as the year 1900 rather than the year 2000. An inability of the systems to correctly recognize dates in date-sensitive calculations could lead to system failure and disruption of operations. The Company plans to complete the Year 2000 Issue project by June 30, 1999.

The pari-mutuel industry is very dependent upon telecommunication links which connect companies together for normal commerce. The transition to the year 2000 may adversely affect the operations of these links. In addition, the Company obtains critical services necessary for normal operations from technology vendors who likewise may be affected by the Year 2000 Issue. The Company is communicating with its significant suppliers, customers and others with which it conducts business to help them identify and resolve their own Year 2000 Issue. If necessary modifications and conversions by the Company and those with which it conducts business are not completed timely, the Year 2000 Issue may have a material adverse effect on the Company's results of operations.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In 1997, the Company adopted 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. The footnotes to the financial statements contain the required disclosures. The adoption of this standard did not have a material impact on the Company's financial statements.

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). SFAS 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. SFAS 130 is effective for financial statements issued for periods beginning after December 15, 1997. The

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Company does not expect adoption of this standard will have a material impact on its financial statements.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). The Company will adopt SFAS 131 during the fourth quarter of 1998 as required.

In February 1998, the FASB issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and other Post-retirement Benefits" (SFAS 132). This statement revises employers' disclosures about pensions and other post-retirement plans without changing the measurement or recognition of those plans. The Company will adopt SFAS 132 in 1998.

SUBSEQUENT EVENTS

On March 19, 1998, the Company's Board of Directors authorized a 2-for-1 stock split with a record date of March 30, 1998 and also authorized the increase in the number of authorized shares of no par value common stock from 10 million to 20 million shares, subject to approval of shareholders at the next annual meeting of shareholders. Retroactive recognition has been given to this stock split in this Form 10-K and in the accompanying financial statements.

Additionally, the Company's Board of Directors approved a shareholder "Rights Plan" (the "Plan") on March 19, 1998 which grants each shareholder the right to purchase a fraction of a share of Series 1998 Preferred Stock at the rate of one right for each share of the Company's common stock. The rights will become exercisable 10 business days (or such later date as determined by the Board of Directors) after any person or group acquires, obtains a right to acquire or announces a tender offer for 15% or more of the Company's outstanding common stock. The rights would allow the holder to purchase preferred stock of the Company at a 50% discount. The Plan is intended to protect shareholders from takeover tactics that may be used by an acquirer which the Board believes are not in the best interests of the shareholders. The Plan expires on March 19, 2008.

On March 19, 1998 the Company's Board of Directors also approved the execution of a new line of credit following a bank's commitment to increase its unsecured bank line of credit from \$20 million to \$50 million. The interest rate is based upon LIBOR plus 50 to 100 additional basis points determined by certain Company financial ratios or at prime rate minus 50 basis points, at the Company's election. The line of credit expires in March 2000.

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On March 28, 1998, the Company entered into a stock purchase agreement with TVI Corp., ("TVI") for the purchase of 100% of the stock of Racing Corporation of America ("RCA"). RCA owns and operates Ellis Park Race Course in Henderson, Kentucky, and the Kentucky Horse Center, a training facility located in Lexington, Kentucky. The purchase price will be approximately \$22,000,000 in a combination of cash and common stock of the Company. The sale which is expected to close in April is subject to various closing conditions and approvals of several regulatory agencies, including the Kentucky Racing Commission. The purchase is not anticipated to have any material effect on earnings in 1998.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT
MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY 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, 1997, 1996 and 1995 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, 1997, 1996 and 1995 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, presents fairly in all material respects, the information required to be included therein for the years ended December 31, 1997, 1996 and 1995.

/s/Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.

Louisville, Kentucky
March 7, 1998, except for Note 13, as to which
the date is March 28, 1998

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 1997	December 31, 1996	December 31, 1995
	-----	-----	-----
Current assets:			
Cash and cash equivalents	\$9,280,233	\$8,209,414	\$ 5,856,188
Accounts receivable	7,086,889	5,218,236	2,098,901
Other current assets	540,489	679,221	549,820
	-----	-----	-----
Total current assets	16,907,611	14,106,871	8,504,909
Other assets	5,778,430	3,739,906	4,632,044
Plant and equipment	104,554,196	100,025,412	97,451,463
Less accumulated depreciation	(41,391,429)	(37,143,223)	(33,101,934)
	-----	-----	-----
	63,162,767	62,882,189	64,349,529
	-----	-----	-----
	\$85,848,808	\$80,728,966	\$77,486,482
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$5,732,783	\$5,403,000	\$3,384,917
Accrued expenses	7,937,575	8,021,487	6,443,473
Dividends payable	3,658,468	2,375,271	1,892,302
Income taxes payable	186,642	2,510,508	1,049,508
Deferred revenue	7,344,830	6,511,902	6,098,541
Long-term debt, current portion	79,805	73,893	70,097
	-----	-----	-----
Total current liabilities	24,940,103	24,896,061	18,938,838
Long-term debt, due after one year	2,633,164	2,878,714	6,351,079
Outstanding mutuel tickets (payable after one year)	1,625,846	2,031,500	2,256,696
Deferred compensation	880,098	825,211	871,212
Deferred income taxes	2,377,100	2,316,600	2,415,500
Stockholders' equity:			
Preferred stock, no par value; authorized, 250,000 shares; issued, none			
Common stock, no par value; authorized, 10,000,000 shares, issued 7,316,936 shares, 1997, 7,308,526 shares, 1996 and 7,569,208 shares, 1995	3,614,567	3,493,042	3,504,388
Retained earnings	49,842,930	44,352,838	43,486,460
Deferred compensation costs	-	-	(272,691)
Note receivable for common stock	(65,000)	(65,000)	(65,000)
	-----	-----	-----
	53,392,497	47,780,880	46,653,157
	-----	-----	-----
	\$85,848,808	\$80,728,966	\$77,486,482
	=====	=====	=====

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995
	-----	-----	-----
Net revenues	\$118,907,367	\$107,858,818	\$92,434,216
	-----	-----	-----
Operating expenses:			
Purses	39,718,374	34,439,143	27,651,482
Other direct expenses	55,705,722	52,438,836	46,117,000
	-----	-----	-----
	95,424,096	86,877,979	73,768,482
	-----	-----	-----
Gross profit	23,483,271	20,980,839	18,665,734
Selling, general and administrative	9,077,983	8,665,942	8,360,524
	-----	-----	-----
Operating income	14,405,288	12,314,897	10,305,210
	-----	-----	-----
Other income (expense):			
Interest income	575,084	390,669	233,556
Interest expense	(332,117)	(337,438)	(572,779)
Miscellaneous income	325,087	673,398	288,148
	-----	-----	-----
	568,054	726,629	(51,075)
	-----	-----	-----
Earnings before income tax provision	14,973,342	13,041,526	10,254,135
Federal and state income tax provision	5,824,782	4,970,000	4,051,000
	-----	-----	-----
Net earnings	\$9,148,560	\$ 8,071,526	\$ 6,203,135
	=====	=====	=====
Net earnings per share data:			
Basic net earnings	\$1.25	\$1.08	\$.82
Diluted net earnings	\$1.25	\$1.08	\$.82
Weighted average shares outstanding:			
Basic	7,312,052	7,445,542	7,568,278
Diluted	7,320,670	7,447,706	7,568,692

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, 1997, 1996 and 1995

	Common Shares	Stock Amount	Retained Earnings	Note Receivable for Common Stock	Deferred Compensation Costs	Total
Balances December 31, 1994	7,566,634	\$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 \$25.83 per share	2,574	66,477				66,477
Cash dividends, \$.25 per share				(1,892,302)		(1,892,302)
Balances December 31, 1995	7,569,208	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 \$14.45 per share	7,818	112,970				112,970
Repurchase of common stock	(268,500)	(124,316)	(4,829,877)			(4,954,193)
Cash dividends, \$.33 per share				(2,375,271)		(2,375,271)
Balances December 31, 1996	7,308,526	3,493,042	44,352,838	(65,000)	-	47,780,880
Net earnings			9,148,560			9,148,560
Issuance of common stock at \$14.45 per share	8,410	121,525				121,525
Cash dividends, \$.50 per share				(3,658,468)		(3,658,468)
Balances December 31, 1997	7,316,936	\$3,614,567	\$49,842,930	\$ (65,000)	-	\$53,392,497

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 1997 -----	Year Ended December 31, 1996 -----	Year Ended December 31, 1995 -----
Cash flows from operating activities:			
Net earnings	\$9,148,560	\$8,071,526	\$6,203,135
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	4,558,761	4,814,114	4,506,427
Deferred income taxes	352,100	(461,000)	167,500
Deferred compensation	54,887	226,690	142,534
Increase (decrease) in cash resulting from changes in operating assets and liabilities:			
Accounts receivable	(2,053,211)	(2,943,932)	151,847
Other current assets	(152,868)	232,699	191,740
Accounts payable	329,783	(1,114,508)	1,969,808
Accrued expenses	(83,912)	4,710,605	943,622
Income taxes payable	(2,323,866)	1,461,000	1,049,508
Deferred revenue	1,017,486	237,958	(17,100)
Other assets and liabilities	(377,523)	(109,037)	1,231,102
	-----	-----	-----
Net cash provided by operating activities	10,470,197	15,126,115	16,540,123
	-----	-----	-----
Cash flows from investing activities:			
Additions to intangible assets	-	-	(461,536)
Additions to plant and equipment, net	(4,568,494)	(2,570,795)	(8,589,535)
Purchase of minority-owned investments	(2,337,500)	-	-
	-----	-----	-----
Net cash used in investing activities	(6,905,994)	(2,570,795)	(9,051,071)
	-----	-----	-----
Cash flows from financing activities:			
Decrease in long-term debt, net	(239,638)	(3,468,569)	(2,262,138)
Dividends paid	(2,375,271)	(1,892,302)	(1,891,759)
Common stock issued	121,525	112,970	-
Common stock repurchased	-	(4,954,193)	-
	-----	-----	-----
Net cash used in financing activities	(2,493,384)	(10,202,094)	(4,153,897)
	-----	-----	-----
Net increase in cash and cash equivalents	1,070,819	2,353,226	3,335,155
Cash and cash equivalents, beginning of period	8,209,414	5,856,188	2,521,033
	-----	-----	-----
Cash and cash equivalents, end of period	\$9,280,233	\$8,209,414	\$5,856,188
	=====	=====	=====
Supplemental disclosures of cash flow information: Cash paid during the period for:			
Interest	\$151,397	\$277,149	\$485,908
Income taxes	\$7,914,974	\$3,970,000	\$2,790,000
Schedule of Non-cash Operating Activities:			
Invoicing for 1998 Kentucky Derby and Oaks	\$402,328	\$586,886	\$411,483

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 intrastate 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, Quarter Horse and Standardbred horse races and participates in interstate 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 (CDMC), Churchill Downs Investment Company (CDIC), and Anderson Park Inc. (Anderson), and its majority owned subsidiary, Hoosier Park. 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 primarily for the Kentucky Derby and Oaks races in Kentucky.

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 \$270,845, \$775,979 and \$688,916 for the years ended December 31, 1997, 1996 and 1995.

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 earnings and earnings per share are presented in Note 7 as if SFAS 123 had been applied.

RECLASSIFICATION:

Certain financial statement amounts have been reclassified in the prior years to conform to current year presentation.

COMPUTATION OF NET EARNINGS PER COMMON SHARE:

Basic net earnings per common share has been computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted net earnings per share has been computed by dividing net earnings by the weighted average number of common and common equivalent shares (stock options) outstanding during the period. Prior period net earnings per share data has been restated to reflect the adoption of Statement of Financial Accounting Standards No. 128, "Earnings Per Share".

RECENT ACCOUNTING PRONOUNCEMENTS:

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). The Company will adopt SFAS 131 during the fourth quarter of 1998 as required.

In February 1998, the FASB issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and other Post-retirement Benefits" (SFAS 132). This statement revises employers' disclosures about pensions and other post-retirement plans without changing the measurement or recognition of those plans. The Company will adopt SFAS 132 in 1998.

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. PLANT AND EQUIPMENT:

Plant and equipment are summarized as follows:

	December 31, 1997	December 31, 1996	December 31, 1995
	-----	-----	-----
Land	\$5,999,036	\$ 5,879,994	\$ 5,930,242
Grandstands and buildings	57,579,747	56,154,054	55,946,326
Equipment	3,416,306	2,936,129	2,685,026
Furniture and fixtures	4,327,797	3,603,276	3,435,761
Tracks and other improvements	33,118,100	31,377,753	29,332,188
Construction in process	113,210	74,206	121,920
	-----	-----	-----
	\$104,554,196	\$100,025,412	\$97,451,463
	=====	=====	=====

Depreciation expense was \$4,287,916, \$4,038,135 and \$3,817,511 for the years ended December 31, 1997, 1996 and 1995.

3. INCOME TAXES:

Components of the provision for income taxes follow:

Income taxes:

	1997	1996	1995
	-----	-----	-----
Currently payable	\$5,472,900	\$5,431,000	\$3,883,500
Deferred income taxes	352,100	(461,000)	167,500
	-----	-----	-----
	\$5,825,000	\$4,970,000	\$4,051,000
	=====	=====	=====

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:

	1997	1996	1995
	-----	-----	-----
Federal statutory tax on earnings before income tax	\$5,141,000	\$4,464,000	\$3,486,000
State income taxes, net of federal income tax benefit	612,000	537,000	552,400
Other	72,000	(31,000)	12,600
	-----	-----	-----
	\$5,825,000	\$4,970,000	\$4,051,000
	=====	=====	=====

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INCOME TAXES: (cont'd)

At December 31, 1997, the Company has accumulated net operating loss carryforwards of approximately \$5,097,000 for Indiana state income tax purposes expiring from 2009 through 2011. Management is unable at this time to project future taxable income which will utilize these loss carryforwards. As a result, a valuation allowance was established in prior years in the amount of \$176,000 in 1996 and \$104,000 in 1995. Approximately \$3,000 of this allowance was reversed in 1997. The tax benefit of these carryforwards will be recognized when management is able to project future taxable income in the state of Indiana.

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

	1997	1996	1995
	-----	-----	-----
Deferred tax liabilities:			
Excess of book over tax basis of property & equipment	\$2,415,000	\$2,284,000	\$2,161,000
Book basis of racing license in excess of tax basis	636,000	657,000	680,000
	-----	-----	-----
Gross deferred tax liability	3,051,000	2,941,000	2,841,000
	-----	-----	-----
Deferred tax assets:			
Accrual for supplemental benefit plan	(295,000)	(273,000)	(252,900)
Net operating loss carryforwards	(173,000)	(176,000)	(104,000)
Allowance for uncollectible receivables	(71,000)	(66,000)	(54,000)
Excess of book over tax basis of other assets	(250,000)	(136,000)	-
Other accruals	(128,400)	(511,500)	(118,600)
	-----	-----	-----
Gross deferred tax assets	(917,400)	(1,162,500)	(529,500)
	-----	-----	-----
Valuation allowance for deferred tax assets	173,000	176,000	104,000
	-----	-----	-----
Net deferred tax liability	\$2,306,600	\$1,954,500	\$2,415,500
	=====	=====	=====

Income taxes are classified in the balance sheet as follows:

Net non-current deferred tax liability	\$2,377,100	\$2,316,600	\$2,415,500
Net current deferred tax asset	(70,500)	(362,100)	-
	-----	-----	-----
	\$2,306,600	\$1,954,500	\$2,415,500
	=====	=====	=====

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, 1997, 1996 and 1995 was \$535,000, \$402,000 and \$280,000, 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, 1997, 1996 and 1995 was \$51,000, \$51,000 and \$57,000, 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, 1997, 1996 and 1995 was \$205,000, \$183,000, and \$194,000, 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, all of which are based on LIBOR plus additional basis points determined by certain Company financial ratios. The line of credit expires January 31, 1999. No borrowings were outstanding at December 31, 1997 and 1996. There was \$6.0 million outstanding at December 31, 1995.

The Company also has two non-interest bearing notes payable in the aggregate face amount of \$900,000 relating to the purchase of an intrastate wagering license from the former owners of the Louisville Sports Spectrum property. Interest has been imputed at 8%. The balance of these notes net of unamortized discount was \$276,000, \$350,000 and \$420,000 at December 31, 1997, 1996 and 1995, respectively. The notes require aggregate annual payments of \$110,000. As described in the contingency footnote (Note 9) any remediation costs for environmental cleanup can be offset against any amounts due under these notes payable.

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

On May 31, 1996, the Company entered into a Partnership Interest Purchase Agreement with Conseco, L.L.C. ("Conseco") for the sale of 10% of the Company's partnership interest in Hoosier Park to Conseco. The transaction also included assumption by Conseco of a loan to the Company of approximately \$2,600,000, of which the balance is \$2,437,000 at December 31, 1997. The loan requires interest of prime plus 2% (10.50% at December 31, 1997) payable monthly with principal due November, 2004. The note is collateralized by 10% of the assets of Hoosier Park.

Maturities of all notes payable for the five years following December 31, 1997 follow:

PRINCIPLE AMOUNT	
1998 -	\$ 80,000
1999 -	86,000
2000 -	93,000
2001 -	8,000
2002 -	9,000
Thereafter -	2,437,000

6. OPERATING LEASES:

The Company contracts for totalisator equipment and service extending through October, 2001. The contract provides for rentals based on a percentage of pari-mutuel wagers registered by the totalisator equipment. Rental expense for the years ended December 31, 1997, 1996 and 1995 was \$1,361,000, \$1,257,000 and \$1,093,000, 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 1997, 1996 and 1995 was \$217,000, \$219,000 and \$308,000, respectively, which included \$88,000, \$90,000 and \$180,000 of contingent rentals in 1997, 1996 and 1995, respectively.

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. OPERATING LEASES: (cont'd)

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 1997, 1996 and 1995 was \$621,000, \$620,000 and \$114,000, respectively.

The Company contracts for audio/video equipment and service under an agreement which provides for daily fees, which vary based on the level of programming provided. Expense under this agreement during 1997, 1996 and 1995 was \$1,604,000, \$1,369,000 and \$1,403,000, respectively.

A summary of future minimum operating lease payments follows:

Year Ending December 31 -----	Minimum Lease Payment (\$) -----
1998	351,911
1999	359,638
2000	359,638
2001	336,300
2002	328,520
Later Years	626,173
Total minimum lease payments	\$2,362,180

7. STOCK-BASED COMPENSATION PLANS:

The Company sponsors both the "Churchill Downs Incorporated 1997 Stock Option Plan" (the "97 Plan") and the "Churchill Downs Incorporated 1993 Stock Option Plan" (the "93 Plan"), stock-based incentive compensation plans which are described below. The Company applies APB Opinion 25 and related interpretations in accounting for both the plans. However, pro forma disclosures as if the Company adopted the cost recognition provisions of SFAS 123 as required are presented below.

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company is authorized to issue up to 300,000 shares and 400,000 shares of common stock (as adjusted for the stock split) under the 97 Plan and 93 Plan, respectively, 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.

Employee Stock Options:

Both the 97 Plan and the 93 Plan provide 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 plans. The Company granted stock options in 1997, 1996 and 1995. 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, 1997, 1996 and 1995 and the changes during the year ended on those dates is presented below:

	1997		1996		1995	
	# 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	337,000	\$19.08	248,000	\$22.34	226,500	\$22.97
Granted	89,532	\$20.83	274,400	\$18.97	21,500	\$15.75
Exercised	-	-	-	-	-	-
Canceled	-	-	185,400	\$23.27	-	-
Forfeited	-	-	-	-	-	-
Expired	-	-	-	-	-	-
Outstanding at end of year	426,532	\$19.45	337,000	\$19.08	248,000	\$22.34
Exercisable at end of year	207,400	\$19.67	-	-	123,600	\$23.27
Weighted-average fair value per share of options granted during the year	\$6.34		\$5.55		\$4.20	

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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 1997, 1996 and 1995, respectively: dividend yields ranging from 1.2% to 1.6%; risk-free interest rates are different for each grant and range from 5.39% to 6.63%; and the expected lives of options are different for each grant and range from approximately 5.8 to 6.5 years, and a volatility of 19.38% in 1997 and 18.75% in 1996 and 1995.

The following table summarizes information about stock options outstanding at December 31, 1997:

Range of Exercise Prices	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	Number Outstanding At 12/31/97	Weighted Average Remaining Contributing Life	Weighted Average Exercise Price	Number Exercisable At 12/31/97	Weighted Average Exercise Price
\$15.75 to \$19.25	315,900	7.05	\$18.72	170,400	\$19.25
\$21.25 to \$22.00	110,632	8.7	\$21.54	37,000	\$21.71
TOTAL	426,532	7.48	\$19.45	207,400	\$19.67

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, August 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.

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Under the Employee Stock Purchase Plan, the Company sold 8,410 shares of common stock to 111 employees pursuant to options granted on August 1, 1996 and exercised on July 31, 1997. Because the plan year overlaps the company's fiscal year, the number of shares sold pursuant to options granted on August 1, 1997 can only be estimated because the 1997 plan year is not yet complete. The Company's estimate of options granted in 1997 under the Plan is based on the number of shares sold to employees under the Plan for the 1996 plan year, adjusted to reflect the change in the number of employees participating in the Plan in 1997.

In accordance with APB 25, the Company has not recognized any compensation cost for the Employee Stock Purchase Plan for 1997, 1996 or 1995.

A summary of the status of the Company's stock options under the Employee Stock Purchase Plan as of December 31, 1997, 1996 and 1995 and the changes during the year ended on those dates is presented below:

	1997		1996		1995	
	# 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	8,410	\$14.45	7,818	\$14.45	-	-
Granted	8,030	\$18.94	8,000	\$17.22	7,818	\$14.45
Exercised	8,410	\$14.45	7,818	\$14.45	-	-
Forfeited	-	-	-	-	-	-
Expired	-	-	-	-	-	-
Outstanding at end of year	8,030	-	8,000	-	7,818	-
Exercisable at end of year	-	-	-	-	-	-
Weighted-average fair value per share of options granted during the year	\$5.36		\$5.35		\$6.39	

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Had the compensation cost for the Company's stock-based compensation plans been determined consistent with SFAS 123, the Company's net earnings and net earnings per common share for 1997, 1996 and 1995 would approximate the pro forma amounts below:

	1997	1996	1995
	-----	-----	-----
Net earnings:			
As reported	\$9,148,560	\$8,071,526	\$6,203,135
Pro-forma	\$8,605,000	7,530,000	6,153,000
Net earnings per common share:			
As reported			
Basic	\$1.25	\$1.08	\$0.82
Diluted	\$1.25	\$1.08	\$0.82
Pro-forma			
Basic	\$1.18	\$1.01	\$0.81
Diluted	\$1.18	\$1.01	\$0.81

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

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.

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. CONTINGENCIES:

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, 1997 and additional costs of remediation have not yet been conclusively determined. The sellers have now received a reimbursement from the State of Kentucky of \$995,000 for remediation costs and that amount is now being held in an escrow account to pay further costs of remediation. Approximately \$985,000 remains in the account. In addition to the hold back, the Company has obtained an indemnity to cover the full cost of remediation from the prior owner 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 any of the Company's property. Except as discussed herein, 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.

10. SALE OF 10% OF HOOSIER PARK:

On May 31, 1996, the Company sold 10% of Anderson's partnership interest in Hoosier Park to Conseco for a cash payment of \$218,390 for the 10% partnership interest and an additional cash payment of \$2,603,514 for the 10% interest in the debt owed by Hoosier Park to CDMC at face value of debt at the date of the closing.

Conseco has an option which expires December 31, 1998, to purchase from Anderson an additional 47% partnership interest in Hoosier Park for approximately \$6,222,000 and an additional 47% interest in the debt owed by Hoosier Park to CDMC for approximately \$15,934,000. This purchase would be subject to the approval of the Indiana Horse Racing Commission ("IHRC"). Should this transaction occur, Conseco will be the sole general partner of Hoosier Park, and Anderson and Pegasus Group, Inc. will be limited partners with partnership interests of 30% and 13%, respectively. CDMC would continue to have a long-term management agreement with Hoosier Park pursuant to which CDMC would have operational control of the day-to-day affairs of Hoosier Park and its related simulcast facilities.

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. PURCHASE OF MINORITY-OWNED INVESTMENT

In July 1997, BC Racing Group, LLC (BC), of which a wholly-owned subsidiary of the Company is a 24% owner, purchased Dueling Grounds racecourse for \$11 million at a Federal Bankruptcy Court sale after having purchased underlying mortgage notes to the property from the mortgagee at a discount. Located in Franklin, Kentucky, just north of Nashville, Tennessee, Dueling Grounds opened in 1991, conducting short race meets and year-round simulcasting. The Company's investment in BC of \$2,187,500, which includes notes receivable of \$1,822,900 and equity capital of \$364,600, is accounted for under the equity method of accounting.

12. NET EARNINGS PER SHARE COMPUTATIONS

The following is a reconciliation of the numerator and denominator of the basic and diluted per share computations:

	1997 ----	1996 ----	1995 ----
Net earnings (numerator) amounts used for basic and diluted per share computations:	\$9,148,560	\$8,071,526	\$6,203,135
	-----	-----	-----
Weighted average shares (denominator) of common stock outstanding per share computations:			
Basic	7,312,052	7,445,542	7,568,278
Plus dilutive effect of stock options	8,618	2,164	414
	-----	-----	-----
Diluted	7,320,670	7,447,706	7,568,692
	=====	=====	=====
Net earnings per share			
Basic	\$1.25	\$1.08	\$0.82
Diluted	\$1.25	\$1.08	\$0.82

Options to purchase 9,800, 135,250 and 113,050 shares for the years ended December 31, 1997, 1996 and 1995, respectively, were not included in the computation of earnings per common share assuming dilution because the options' exercise prices were greater than the average market price of the common shares.

13. SUBSEQUENT EVENTS

On March 19, 1998, the Company's Board of Directors authorized a 2-for-1 stock split with a record date of March 30, 1998 and also authorized the increase in the number of authorized shares of no par value common stock from 10 million to 20 million shares, subject to approval of shareholders at the next annual meeting of shareholders. Retroactive recognition has been given to this stock split in the accompanying financial statements.

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. SUBSEQUENT EVENTS: (cont'd)

Additionally, the Company's Board of Directors approved a shareholder "Rights Plan" (the "Plan") on March 19, 1998 which grants each shareholder the right to purchase a fraction of a share of Series 1998 Preferred Stock at the rate of one right for each share of the Company's common stock. The rights will become exercisable 10 business days (or such later date as determined by the Board of Directors) after any person or group acquires, obtains a right to acquire or announces a tender offer for 15% or more of the Company's outstanding common stock. The rights would allow the holder to purchase preferred stock of the Company at a 50% discount. The Plan is intended to protect shareholders from takeover tactics that may be used by an acquirer which the Board believes are not in the best interests of the shareholders. The Plan expires on March 19, 2008.

On March 19, 1998 the Company's Board of Directors also approved the execution of a new line of credit following a bank's commitment to increase its unsecured bank line of credit from \$20 million to \$50 million. The interest rate is based upon LIBOR plus 50 to 100 additional basis points determined by certain Company financial ratios or at prime rate minus 50 basis points, at the Company's election. The line of credit expires in March 2000.

On March 28, 1998, the Company entered into a stock purchase agreement with TVI Corp., ("TVI") for the purchase of 100% of the stock of Racing Corporation of America ("RCA"). RCA owns and operates Ellis Park Race Course in Henderson, Kentucky, and the Kentucky Horse Center, a training facility located in Lexington, Kentucky. The purchase price will be approximately \$22,000,000 in a combination of cash and common stock of the Company. The sale which is expected to close in April is subject to various closing conditions and approvals of several regulatory agencies, including the Kentucky Racing Commission. The purchase is not anticipated to have any material effect on earnings in 1998.

	[PER SHARE OF COMMON STOCK]						
	Net Revenues	Operating Income (Loss)	Net Earnings (Loss)	Basic Net Earnings (Loss)	Diluted Net Earnings (Loss)	Dividends	Market Price High Low
1997	\$118,907,367	\$14,405,288	\$9,148,560	\$1.25	\$1.25		
Fourth Quarter	28,021,261	(269,688)	30,749	0.00	0.00	\$0.50	\$23.38 \$20.75
Third Quarter	16,827,607	(3,005,270)	(1,819,209)	(0.25)	(0.25)		21.00 16.25
Second Quarter	60,779,635	20,815,669	12,785,706	1.75	1.75		19.00 16.50
First Quarter	13,278,864	(3,135,423)	(1,848,686)	(0.25)	(0.25)		18.50 16.00
1996	\$107,858,818	\$12,314,897	\$ 8,071,526	\$1.08	\$1.08		
Fourth Quarter	26,369,324	(1,092,044)	(171,138)	(0.02)	(0.02)	\$0.33	\$18.25 \$17.00
Third Quarter	15,200,752	(2,782,430)	(1,580,988)	(0.21)	(0.21)		18.75 17.00
Second Quarter	54,939,249	19,637,584	11,896,865	1.59	1.59		22.00 18.00
First Quarter	11,349,493	(3,448,213)	(2,073,213)	(0.27)	(0.27)		20.00 16.00
1995	\$ 92,434,216	\$10,305,210	\$ 6,203,135	\$0.82	\$0.82		
Fourth Quarter	21,264,267	(905,283)	(500,096)	(0.06)	(0.06)	\$0.25	\$19.25 \$15.50
Third Quarter	13,222,206	(3,572,224)	(2,174,704)	(0.29)	(0.29)		21.63 17.75
Second Quarter	49,335,136	17,645,591	10,650,212	1.41	1.41		23.00 20.50
First Quarter	8,612,607	(2,862,874)	(1,772,277)	(0.24)	(0.24)		23.50 21.25

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 SMALLCAP MARKET UNDER THE SYMBOL CHDN. AS OF MARCH 27, 1998, THERE WERE APPROXIMATELY 3,100 STOCKHOLDERS OF RECORD.

EARNINGS (LOSS) PER SHARE AND OTHER PER SHARE AMOUNTS HAVE BEEN RETROACTIVELY ADJUSTED FOR THE 2-FOR-1 STOCK SPLIT WITH A RECORD DATE OF MARCH 30, 1998.

QUARTERLY EARNINGS (LOSS) PER SHARE FIGURES MAY NOT TOTAL EARNINGS (LOSS) PER SHARE FOR THE YEAR DUE TO THE FLUCTUATION OF THE MARKET PRICE OF THE STOCK.

THE ABOVE 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 THREE YEARS. QUOTATIONS REFLECT INTER-DEALER PRICES, WITHOUT RETAIL MARK-UP, MARK-DOWN OR COMMISSIONS, AND MAY NOT NECESSARILY REFLECT ACTUAL TRANSACTIONS.

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 "Section 16(a) Beneficial Ownership Reporting Compliance," "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 11. EXECUTIVE COMPENSATION.

The information required herein is incorporated by reference from sections of the Company's Proxy Statement titled "Election of Directors - Compensation and Committees of the Board of Directors," "Compensation Committee Report on Executive Compensation," "Compensation Committee Interlocks and Insider Participation," "Performance Graph," 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.

PART IV

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

(a) (1) Consolidated Financial Statements

	PAGES
The following financial statements of Churchill Downs Incorporated for the years ended December 31, 1997, 1996 and 1995 are included in Part II, Item 8:	
Reports of Independent Accountants	39
Consolidated Balance Sheets	40
Consolidated Statements of Earnings	41
Consolidated Statements of Stockholders' Equity	42
Consolidated Statements of Cash Flows	43
Notes to Consolidated Financial Statements	44-57
 Schedule VIII - Valuation and Qualifying Accounts	 62

(2) 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.

(3) For the list of required exhibits, see exhibit index.

(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 (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 19, 1998 (Principal Executive Officer)	/S/ROBERT L. DECKER Robert L. Decker Sr. Vice President, Finance March 19, 1998 (Principal Financial Officer)	/S/VICKI L. BAUMGARDNER Vicki L. Baumgardner Vice President, Finance/Treasurer March 19, 1998 (Principal Accounting Officer)
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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 19, 1998 (Director)	Seth W. Hancock March 19, 1998 (Director)	/S/THOMAS H. MEEKER Thomas H. Meeker March 19, 1998 (Director)
/S/ CATESBY W. CLAY Catesby W. Clay March 19, 1998 (Director)	/S/FRANK B. HOWER, JR. Frank B. Hower, Jr. March 19, 1998 (Director)	/S/ARTHUR B. MODELL Arthur B. Modell March 19, 1998 (Director)
/S/WILLIAM S. FARISH William S. Farish March 19, 1998 (Director)	/S/G. WATTS HUMPHREY, JR. G. Watts Humphrey, Jr. March 19, 1998 (Director)	/S/CARL F. POLLARD Carl F. Pollard March 19, 1998 (Director)
/S/J. DAVID GRISSOM J. David Grissom March 19, 1998 (Director)	/S/W. BRUCE LUNSFORD W. Bruce Lunsford March 19, 1998 (Director)	/S/DENNIS D. SWANSON Dennis D. Swanson March 19, 1998 (Director)
		/S/DARRELL R. WELLS Darrell R. Wells March 19, 1998

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, 1997:				
Allowance for doubtful account and notes receivable	\$165,000	\$61,000	\$50,000	\$176,000
Valuation allowance for deferred tax asset	176,000	-	3,000	173,000
	-----	-----	-----	-----
	\$341,000	\$61,000	\$53,000	\$349,000
	=====	=====	=====	=====
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
	=====	=====	=====	=====

EXHIBIT INDEX

NUMBERS	DESCRIPTION	BY REFERENCE TO
(3) (a)	Restated Articles of Incorporation	Exhibit 3(b) to Report on Form 10-Q for the fiscal quarter ended September 30, 1997
(b)	Restated Bylaws as amended	Pages 67 to 76, Report on Form 10-K for the year ended December 31, 1997
(4) (a)	Rights Agreement dated as of March 19, 1998 between Churchill Downs, Inc. and Bank of Louisville	Exhibit 4.1 to Current Report on Form 8-K dated March 19, 1998
(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 Incentive Compensation Plan (1997) *	Exhibit 10 (c) to Report on Form 10-K for the year ended December 31, 1996
(d)	Churchill Downs Incorporated for 1993 Stock Option Plan *	Exhibit 10(h) to Report on Form 10-K 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 Current 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)	Amendment to Note and Letter Agreement dated December 5, 1996 in the principal amount of \$20,000,000 by Churchill Downs Incorporated to PNC Bank, Kentucky, Inc.	Pages 77 to 79, Report on Form 10-K for the year ended December 31, 1997

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|----------|---|--|
| (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 the year ended December 31, 1995 |
| (l) | Employment Agreement between Churchill Downs Incorporated and Robert L. Decker* | Exhibit 10(l) to Report on Form 10-Q for the fiscal quarter ended March 31, 1997 |
| (m) | Amendment No. 2 to Churchill Downs Incorporated 1993 Stock Option Plan* | Pages 89 to 90, Report on Form 10-K for the year ended December 31, 1997 |
| (n) | Churchill Downs Incorporated 1997 Stock Option Plan | Pages 80 to 88, Report on Form 10-K for the year ended December 31, 1997 |
| (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 | Page 66, Report on Form 10-K for the year ended December 31, 1997 |
| (27) (a) | Financial Data Schedule for the year ended December 31 1997 | Report on Form 10-K for the year ended December 31, 1997 |
| (b) | Amended Financial Data Schedule for the year ended December 31, 1996 | Report on Form 10-K for the year ended December 31, 1997 |
| (c) | Amended Financial Data Schedule for the year ended December 31, 1995 | Report on Form 10-K for the year ended December 31, 1997 |
| (d) | Amended Financial Data Schedule for the quarter ended September 30, 1997 | Report on Form 10-K for the year ended December 31, 1997 |
| (e) | Amended Financial Data Schedule for the quarter ended June 30, 1997 | Report on Form 10-K for the year ended December 31, 1997 |
| (f) | Amended Financial Data Schedule for the quarter ended March 31, 1997 | Report on Form 10-K for the year ended December 31, 1997 |
| (g) | Amended Financial Data Schedule for the quarter ended September 30, 1996 | Report on Form 10-K for the year ended December 31, 1997 |

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|-----|---|---|
| (h) | Amended Financial Data Schedule
for the quarter ended June 30, 1996 | Report on Form 10-K for the year
ended December 31, 1997 |
| (i) | Amended Financial Data Schedule
for the quarter ended March 31, 1996 | Report on Form 10-K for the year
ended December 31, 1997 |

* Management contract or compensatory plan or arrangement

EXHIBIT 23

We consent to the incorporation by reference in the registration statements of Churchill Downs Incorporated on Forms S-8 (File No. 33-85012 and File No. 33-61111) of our report, dated March 7, 1998, except for Note 13, as to which the date is March 28, 1998, on our audits of the consolidated financial statements and financial statement schedule of Churchill Downs Incorporated as of December 31, 1997, 1996 and 1995 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, 1998

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 holders of not less than 66-2/3% of all 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 persons calling the meeting, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be

Page 67 of 90

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 twelve (12) 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, four (4) Class II Directors and four (4) Class III Directors. Each director shall hold office for a term of three (3) 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. On all committees where the Chairman of the Board is not appointed as a voting member, the Chairman of the Board shall be an ex officio, nonvoting member of that committee.

SECTION 2. THE EXECUTIVE COMMITTEE. The Board of Directors shall appoint and establish an Executive Committee composed of up to six (6) 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 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 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 executive compensation plan of the Company. It shall be the duty of the Compensation Committee to administer the Company's Supplemental Benefit Plan[s], the Company's Incentive Compensation Plan[s], the Company's Stock Option Plan[s], any executive compensation 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 salary paid to the President and Chief Executive Officer of the Company 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 Company 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 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 of 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.

AMENDMENT TO NOTE
AND LETTER AGREEMENT

THIS AMENDMENT TO NOTE AND LETTER AGREEMENT (this "AMENDMENT") is made as of January _____, 1998, by and between CHURCHILL DOWNS INCORPORATED (the "BORROWER") and PNC BANK, NATIONAL ASSOCIATION, SUCCESSOR BY MERGER TO PNC BANK, KENTUCKY, INC. (the "BANK").

WITNESSETH:

WHEREAS, the Borrower has executed and delivered to the Bank (or a predecessor which is now known by the Bank's name as set forth above), a note dated December 5, 1996, in the original principal amount of Twenty Million Dollars (\$20,000,000.00) (the "NOTE"), pursuant to a letter agreement dated January 11, 1995 (the "AGREEMENT"), to evidence the Borrower's indebtedness to the Bank for a certain loan (the "LOAN");

WHEREAS, the Borrower and the Bank desire to amend the Note and the Agreement as provided for below;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

1. The Note and the Agreement are amended as set forth in Exhibit A attached hereto and made a part hereof. Any and all references to the Note or the Agreement in any document, instrument or certificate evidencing, securing or otherwise delivered in connection with the Loan shall be deemed to refer to the Note and the Agreement as amended hereby. Any initially capitalized terms used in this Amendment without definition shall have the meanings assigned to those terms in the Note or the Agreement.

2. This Amendment is deemed incorporated into the Note and the Agreement. To the extent that any term or provision of this Amendment is or may be deemed expressly inconsistent with any term or provision in the Note or the Agreement, the terms and provisions hereof shall control.

3. The Borrower hereby represents and warrants that (a) all of its representations and warranties in the Agreement are true and correct, (b) no default or Event of Default exists under the Note or the Agreement, and (c) this Amendment has been duly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms.

4. This Amendment may be signed in any number of counterpart copies and by the parties hereto on separate counterparts, but all such copies shall constitute one and the same instrument.

5. This Amendment will be binding upon and inure to the benefit of the Borrower and the Bank and their respective heirs, executors, administrators, successors and assigns.

6. Except as amended hereby, the terms and provisions of the Note and the Agreement remain unchanged and in full force and effect. Except as expressly provided herein, this Amendment shall not constitute an amendment, waiver, consent or release with respect to any provision of the Note or the Agreement, a waiver of any default or Event of Default thereunder, or a waiver or release of any of the Bank's rights and remedies (all of which are hereby reserved). THE BORROWER EXPRESSLY RATIFIES AND CONFIRMS THE WAIVER OF JURY TRIAL PROVISION (IF APPLICABLE).

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WITNESS the due execution hereof as of the date first written above.

CHURCHILL DOWNS INCORPORATED

By /s/Robert L. Decker

Robert L. Decker, Senior Vice
President, Finance and Development
and Chief Financial Officer

PNC BANK, NATIONAL ASSOCIATION, SUCCESSOR
BY MERGER TO PNC BANK, KENTUCKY, INC.

By /s/Susan C. Snyder

Susan C. Snyder, Vice President

EXHIBIT A

AMENDMENT TO NOTE AND LETTER AGREEMENT

The Note and Letter Agreement are hereby amended as follows:

(a) so as to extend the Expiration Date from January 31, 1998, to January 31, 1999, on which date the entire principal balance and any accrued but unpaid interest shall be due and payable; and

(b) so as to amend the Interest Rate, effective as of the date of this Amendment, to:

	LEVEL I	LEVEL II	LEVEL III	LEVEL IV
BASIS FOR PRICING	If the Ratio of the Company's Total Funded Indebtedness to EBITDA is less than 1.0*	If the Ratio of the Company's Total Funded Indebtedness to EBITDA is equal to or greater than 1.0 but less than 1.5	If the Ratio of the Company's Total Funded Indebtedness to EBITDA is equal to or greater than 1.5 but less than 2.0	If the Ratio of the Company's Total Funded Indebtedness to EBITDA is equal to or greater than 2.0
LIBOR +	50 basis points	62.5 basis points	87.5 basis points	100 basis points
BASE RATE (PRIME) +	0	0	0	0
=====	=====	=====	=====	=====

* TOTAL FUNDED INDEBTEDNESS is defined as all outstanding indebtedness for borrowed money (short and long term), capitalized leases, reimbursement obligations under standby letters of credit, and guarantees.

EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

CHURCHILL DOWNS INCORPORATED
1997 STOCK OPTION PLAN

1. PURPOSE. The purpose of the Churchill Downs Incorporated 1997 Stock Option Plan is to promote Company's interests by affording an incentive to key employees to remain in the employ of Company and its Subsidiaries and to use their best efforts on its behalf; and further to aid Company and its Subsidiaries in attracting, maintaining, and developing capable personnel of a caliber required to ensure the continued success of Company and its Subsidiaries by means of an offer to such persons of an opportunity to acquire or increase their proprietary interest in Company through the granting of incentive stock options and nonstatutory stock options to purchase Company's stock pursuant to the terms of the Plan and related stock appreciation rights.

2. DEFINITIONS.

A. "BOARD" means Company's Board of Directors.

B. "CHANGE IN CONTROL" means: (a) the sale, lease, exchange or other transfer of all or substantially all of the assets of Company (in one transaction or in a series of related transactions) to a person that is not controlled by Company, (b) the approval by Company shareholders of any plan or proposal for the liquidation or dissolution of Company, or (c) a change in control of Company of a nature that would be required to be reported (assuming such event has not been "previously reported") in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the effective date of the Plan, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, whether or not Company is then subject to such reporting requirement; provided, however, that, without limitation, such a change in control shall be deemed to have occurred at such time as (i) any Person becomes after the date this Plan is approved or ratified by Company's shareholders the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of 30% or more of the combined voting power of Company's outstanding securities ordinarily having the right to vote at elections of directors, or (ii) individuals who constitute the board of directors of Company on the date this Plan is approved or ratified by Company's shareholders cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to such date whose election, or nomination for election by Company's shareholders, was approved by a vote of at least a majority of the directors comprising or deemed pursuant hereto to comprise the Board on the date this Plan is approved or ratified by Company's shareholders (either by a specific vote or by approval of the proxy statement of Company in which such person is named as a nominee for director) shall be, for purposes of this clause (ii) considered as though such person were a member of the Board on the date this Plan is approved or ratified by Company's shareholders.

C. "CODE" means the Internal Revenue Code of 1986, as amended.

D. "COMMITTEE" means the committee appointed by the Board to administer the Plan pursuant to Section 4.

E. "COMMON STOCK" means Company's common stock, no par value, or the common stock or securities of a Successor that have been substituted therefor pursuant to Section 11.

F. "COMPANY" means Churchill Downs Incorporated, a Kentucky corporation, with its principal place of business at 700 Central Avenue, Louisville, Kentucky 40208.

G. "DISABILITY" means, as defined by and to be construed in accordance with Code Section 22(e)(3), any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous

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period of not less than twelve (12) months, and that renders Optionee unable to engage in any substantial gainful activity. An Optionee shall not be considered to have a Disability unless Optionee furnishes proof of the existence thereof in such form and manner, and at such time, as the Committee may require.

H. "ISO" means an option to purchase Common Stock that at the time the option is granted qualifies as an incentive stock option within the meaning of Code Section 422.

I. "NSO" means a nonstatutory stock option to purchase Common Stock that at the time the option is granted does not qualify as an ISO.

J. "OPTION PRICE" means the price to be paid for Common

Stock upon the exercise of an option, in accordance with Section 6.E.

K. "OPTIONEE" means a key employee to whom an option has been granted under the Plan.

L. "OPTIONEE'S REPRESENTATIVE" means the personal representative of Optionee's estate, and after final settlement of Optionee's estate, the successor or successors entitled thereto by law.

M. "PLAN" means the Churchill Downs Incorporated 1997 Stock Option Plan as set forth herein, and as amended from time to time.

N. "SAR" means a stock appreciation right described in Section 7.

O. "SUBSIDIARY" means any corporation that at the time an option is granted under the Plan qualifies as a subsidiary of Company as defined by Code Section 424(f).

P. "SUCCESSOR" means the entity surviving a merger or consolidation with Company, or the entity that acquires all or a substantial portion of Company's assets or outstanding capital stock (whether by merger, purchase or otherwise).

Q. "TEN PERCENT SHAREHOLDER" means an employee who, at the time an option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of Company or Subsidiary employing Optionee or of its parent (within the meaning of Code Section 424(e)) or Subsidiary corporation.

3. SHARES SUBJECT TO PLAN.

A. AUTHORIZED UNISSUED SHARES. Subject to the provisions of Section 11, shares to be delivered upon exercise of options granted under the Plan shall be made available, at the discretion of the Board, from the authorized unissued shares of Common Stock.

B. AGGREGATE NUMBER OF SHARES. Subject to adjustments and substitutions made pursuant to Section 11, the aggregate number of shares that may be issued upon exercise of all options that may be granted under the Plan shall not exceed one hundred fifty thousand (150,000) of Company's authorized shares of Common Stock.

C. SHARES SUBJECT TO EXPIRED OPTIONS. If an option is cancelled, expires or terminates for any reason without having been exercised in full, the shares of Common Stock subject to, but not delivered under, such option shall become available for any lawful corporate purpose, including for transfer pursuant to other options granted to the same key employee or other key employees without decreasing the aggregate number of shares of Common Stock that may be granted under the Plan.

4. PLAN ADMINISTRATION. The Plan shall be administered by a Board committee consisting of not fewer than two (2) directors who are not officers or employees of Company or a parent or subsidiary company and who receive no compensation from Company in any capacity other than as a director (except for amounts for which disclosure is not required under federal securities law). The Committee shall have full power and authority to construe, interpret, and administer the Plan and may from time to time adopt such rules and regulations for carrying out the Plan as it deems proper and in Company's best interests. Subject to the terms, provisions and conditions of the Plan, the Committee shall have exclusive jurisdiction: [i] to determine the key employees to whom awards shall be granted; [ii] to determine the times at which awards shall be granted; [iii] to determine the form, amount, and manner of exercise of awards; [iv] to grant any combination of ISOs, NSOs and SARs; [v] to determine the limitations, restrictions and conditions applicable to awards; [vi] to fix such other provisions of the option agreement as it may deem necessary or desirable consistent with the terms of the Plan; and [vii] to determine all other questions relating to the administration of the Plan. In making such determinations, the Committee may take into account the nature of the services performed by such employees, their present and potential contributions to the success of Company or a Subsidiary and such other factors as the Committee in its discretion shall deem relevant. The interpretation of any provision of the Plan by the Committee shall be final, conclusive, and binding upon all persons and the officers of Company shall place into effect and shall cause Company to perform its obligations under the Plan in accordance with the determinations of the Committee in administering the Plan.

5. ELIGIBILITY. Key employees of Company and its Subsidiaries shall be eligible to receive options under the Plan. Key employees to whom options may be granted under the Plan will be those selected by the Committee from time to time who, in the sole discretion of the Committee, have contributed in the past or who may be expected to contribute materially in the future to the successful performance of Company and its Subsidiaries.

6. TERMS AND CONDITIONS OF OPTIONS. Each option granted under the Plan shall be evidenced by an option agreement signed by Optionee and by a member of the Committee on behalf of Company. An option agreement shall constitute a binding contract between Company and Optionee, and every Optionee, upon acceptance of such option agreement, shall be bound by the terms and restrictions of the Plan and of the option agreement. Such agreement shall be subject to the following express terms and conditions and to such other terms and conditions that are not inconsistent with the Plan as the Committee may deem appropriate.

A. \$100,000 ISO LIMITATION. The aggregate fair market value (determined as of the date an option is granted) of the Common Stock for which ISOs will first become exercisable by an Optionee in any calendar year under all ISO plans of Optionee's employer corporation and its

parent (within the meaning of Code Section 424(e)) or subsidiary (within the meaning of Code Section 424(f)) corporation shall not exceed \$100,000. Options in excess of this limitation shall constitute NSOs.

B. OPTION PERIOD. Each option agreement shall specify the period during which the option is exercisable. The Committee may extend the period; provided, however, that the period may not be extended without Optionee's consent if the extension would disqualify the option as an ISO. In no case shall such period, including extensions, exceed ten (10) years from the date of grant, provided, however, that in the case of an ISO granted to a Ten Percent Stockholder, such period, including extensions, shall not exceed five (5) years from the date of grant.

C. OPTION VESTING. No part of any option may be exercised until Optionee has been employed by Company or a Subsidiary for such period, which shall be no less than one (1) year, after the date on which the option is granted as the Committee may specify in the option agreement. The option agreement may provide for exercisability in installments.

D. ACCELERATION OF OPTION VESTING. The Committee may provide that the exercise dates of outstanding options shall accelerate and become exercisable on or after the date of a Change in Control or termination of Optionee's employment due to death and/or Disability on such terms and conditions deemed appropriate by the Committee and set forth in the option agreement.

E. OPTION PRICE. The Option Price per share of Common Stock shall be determined by the Committee at the time an option is granted. The Option Price for ISOs shall be not less than fair market value, or in the case of an ISO granted to a Ten Percent Shareholder one hundred ten percent (110%) of the fair market value, at date of grant. The fair market value of Common Stock shall be the closing high bid quotation for the Common Stock in the over-the-counter market, as reported by the National Association of Securities Dealers Automated Quotation System, on the business day immediately preceding the date of grant. The Option Price shall be subject to adjustments in accordance with the provisions of Section 11.

F. OPTION EXPIRATION. An option shall expire, and cease to be exercisable, at the earliest of the following times:

[1] ten (10) years after the date of grant; or

[2] in the case of an ISO granted to a Ten Percent Shareholder, five (5) years after the date of grant; or

[3] in the case of both an ISO and NSO, unless provided otherwise in the option agreement solely with respect to an NSO, three (3) months after termination of employment with Company or a Subsidiary because of Optionee's retirement in accordance with the terms of Company's tax-qualified retirement plans or with the consent of the Committee; notwithstanding the foregoing, options granted to Thomas H. Meeker, Company's President and Chief Executive Officer, shall expire on the earlier of: [i] the date

specified in Section 6.F[1] or [2], whichever is applicable; or [ii] five (5) years after employment termination; or

[4] one (1) year after termination of employment with Company or a Subsidiary because of Optionee's death or Disability; or

[5] the earlier of: [i] date of Optionee's termination of employment with Company or a Subsidiary for any reason other than death, Disability or retirement; or [ii] the date on which written notice of such employment termination is delivered by Company to Optionee; or

[6] any earlier time set by the grant as provided in the option agreement.

G. EXERCISE BY OPTIONEE'S ESTATE. Upon Optionee's death, options may be exercised, to the extent exercisable by Optionee on the date of Optionee's death, by Optionee's Representative at any time before expiration of said options.

H. LEAVES OF ABSENCE. The Committee may, in its discretion, treat all or any portion of a period during which an Optionee is on military or an approved leave of absence as a period of employment with Company or Subsidiary for purposes of accrual of rights under the Plan. Notwithstanding the foregoing, in the case of an ISO, if the leave exceeds ninety (90) days and reemployment is not guaranteed by contract or statute, Optionee's employment shall be deemed to have terminated on the 91st day of the leave.

I. PAYMENT OF OPTION PRICE. Each option shall provide that the Option Price shall be paid to Company at the time of exercise either in cash or in such other consideration as the Committee deems appropriate, including, but not limited to, Common Stock already owned by Optionee having a total fair market value, as determined by the Committee, equal to the Option Price, or a combination of cash and Common Stock having a total fair market value, as determined by the Committee, equal the Option Price.

J. MANNER OF EXERCISE. To exercise an option, Optionee shall deliver to Company, or to a broker-dealer in the Common Stock with the original copy to Company, the following: [i] seven (7) days' prior written notice specifying the number of shares as to which the option is being exercised and, if determined by counsel for Company to be necessary, representing that such shares are being acquired for investment purposes only and not for purpose of resale or distribution; and [ii] payment by Optionee, or the broker-dealer, for such shares in cash, or if the Committee in its discretion agrees to so accept, by delivery to Company of other Common Stock owned by Optionee, or in some combination of cash and such Common Stock acceptable to the Committee. At the expiration of the seven (7) day notice period, and provided that all conditions precedent contained in the Plan are satisfied, Company shall, without transfer or issuance tax or other incidental expenses to Optionee, deliver to Optionee, at the offices of Company, a certificate or certificates for the Common Stock. If Optionee fails to accept delivery of the Common Stock, Optionee's right to exercise the applicable portion of the option shall terminate. If payment of the Option Price is made in Common Stock, the value of the Common Stock used for payment of the Option Price shall be the

fair market value of the Common Stock, determined in accordance with Section 6.E, on the business day preceding the day written notice of exercise is delivered to Company. Options may be exercised in whole or in part at such times as the Committee may prescribe in the applicable option agreement.

K. CANCELLATION OF SARs. The exercise of an option shall cancel a proportionate number, if any, of SARs included in such option.

L. EXERCISES CAUSING LOSS OF COMPENSATION DEDUCTION. No part of an option may be exercised to the extent the exercise would cause Optionee to have compensation from Company and its affiliated companies for any year in excess of \$1 million and that is nondeductible by Company and its affiliated companies pursuant to Code Section 162(m) and the regulations issued thereunder. Any option not exercisable because of this limitation shall continue to be exercisable in any subsequent year in which the exercise would not cause the loss of Company's or its affiliated companies' compensation tax deduction, provided such exercise occurs before the option expires, and otherwise complies with the terms and conditions of the Plan and option agreement.

M. ISOS. Each option agreement that provides for the grant of an ISO shall contain provisions deemed necessary or desirable by the Committee to qualify such option as an ISO.

7. STOCK APPRECIATION RIGHTS.

A. FORM OF AWARD. The Committee may include an SAR in any ISO or NSO granted under the Plan, either at the time of grant or thereafter while the option is outstanding; provided that no SAR may be awarded with respect to an outstanding ISO without the Optionee's consent to the extent the award would disqualify the option as an ISO. SARs shall be subject to such terms and conditions not inconsistent with the other provisions of the Plan as the Committee shall determine.

B. EXERCISE OF SAR/CANCELLATION OF OPTION. An SAR shall entitle the Optionee to surrender to Company for cancellation the unexercised option, or portion thereof, to which it is related, and to receive from Company in exchange therefor, at the discretion of the Committee, either: [i] a cash payment equal to the excess of the fair market value of the Common Stock subject to the option or portion thereof so surrendered over the aggregate Option Price for the shares; or [ii] delivery to Optionee of Common Stock with a fair market value equal to such excess, or [iii] a combination of cash and Common Stock with a combined value equal to such excess. The value of the Common Stock shall be determined by the Committee in accordance with Section 6.E on the day immediately preceding the day written notice of exercise of the SAR is delivered to Company. The exercise procedures provided by Section 6.J shall apply to the exercise of an SAR to the extent applicable.

C. LIMITATIONS. An SAR shall be exercisable only to the extent the option to which it relates is exercisable and shall be exercisable only for such period as the Committee may provide in the option agreement (which period may expire before, but not later than, the expiration date of the option). Notwithstanding the preceding sentence, an SAR is exercisable only when the fair market value of a share of Common Stock exceeds the Option Price for the share.

8. INVESTMENT REPRESENTATION. Each option agreement may provide that, upon demand by the Committee for such a representation, Optionee or Optionee's Representative shall deliver to the Committee at the time of exercise a written representation that the shares to be acquired upon exercise of an option or SAR are to be acquired for investment and not for resale or distribution. Upon such demand, delivery of such representation before delivery of Common Stock shall be a condition precedent to the right of Optionee or Optionee's Representative to purchase Common Stock.

9. TAX WITHHOLDING. Company shall have the right to: [i] withhold from any payment due to Optionee or Optionee's Representative; or [ii] require Optionee or Optionee's Representative to remit to Company; or [iii] retain Common Stock otherwise deliverable to Optionee or Optionee's Representative, in an amount sufficient to satisfy applicable tax withholding requirements resulting from the grant or exercise of an option or SAR or disqualifying disposition of Common Stock acquired pursuant to the Plan.

10. COMPLIANCE WITH OTHER LAWS AND REGULATIONS. The Plan, the grant and exercise of options and SARs and the obligation of Company to sell and deliver shares under such options and SARs, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. Company shall not be required to issue or deliver certificates for shares of Common Stock before [i] the listing of such shares on any stock exchange or over-the-counter market, such as NASDAQ, on which the Common Stock may then be listed or traded, and [ii] the completion of any registration or qualification of any governmental body which Company shall, in its sole discretion, determine to be necessary or advisable.

11. CAPITAL ADJUSTMENTS AND MERGERS AND CONSOLIDATIONS.

A. CAPITAL ADJUSTMENTS. In the event of a stock dividend, stock split, reorganization, merger, consolidation, or a combination or exchange of shares, the number of shares of Common Stock subject to the Plan and the number of shares under an option or SAR shall be automatically adjusted to take into account such capital adjustment. The price of any share under an option or SAR shall be adjusted so that there will be no change in the aggregate purchase price payable upon exercise of such option or SAR.

B. MERGERS AND CONSOLIDATIONS. In the event Company merges or consolidates with another entity, or all or a substantial portion of Company's assets or outstanding capital stock are acquired (whether by merger, purchase or otherwise) by a Successor, the kind of shares of Common Stock that shall be subject to the Plan and to each outstanding option and SAR shall automatically be converted into and replaced by shares of common stock, or such other class of securities having rights and preferences no less favorable than Company's Common Stock, of the Successor, and the number of shares subject to the option and SAR and the purchase price per share upon exercise of the option or SAR shall be correspondingly adjusted, so that each Optionee shall have the right to purchase [a] that number of shares of common stock of the Successor that have a value equal, as of the date of the merger, conversion or acquisition, to the value, as of the date of the merger, conversion or acquisition, of the shares of Common Stock of Company theretofore subject

to Optionee's option and SAR, [b] for a purchase price per share that, when multiplied by the number of shares of common stock of the Successor subject to the option and SAR, shall equal the aggregate exercise price at which Optionee could have acquired all of the shares of Common Stock of Company theretofore optioned to Optionee. Conversion of an ISO shall be done in a manner to comply with Code Section 424 and the regulations thereunder so the conversion does not disqualify the option as an ISO.

C. NO EFFECT ON COMPANY'S RIGHTS. The granting of an option or SAR pursuant to the Plan shall not affect in any way the right and power of Company to make adjustments, reorganizations, reclassifications, or changes of its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

12. TRANSFERABILITY. Options and SAR granted under the Plan may not be transferred by Optionee other than by will or the laws of descent and distribution and during the lifetime of Optionee, may be exercised only by the Optionee. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an option or SAR, or levy or attachment or similar process not specifically permitted herein, shall be null and void and without effect.

13. NO RIGHTS AS SHAREHOLDER. No Optionee or Optionee's Representative shall have any rights as a shareholder with respect to Common Stock subject to an option or SAR before the date of transfer to the Optionee of a certificate for such shares.

14. NO RIGHTS TO CONTINUED EMPLOYMENT. Neither the Plan nor any award under the Plan shall confer upon any Optionee any right with respect to continuance of employment by Company or Subsidiary nor interfere with the right of Company or Subsidiary to terminate the Optionee's employment.

15. AMENDMENT, SUSPENSION, OR TERMINATION. The Board may amend, suspend or terminate the Plan at any time and in any respect that it deems to be in Company's best interests, except that, without approval by shareholders of Company holding not less than a majority of the votes represented and entitled to be voted at a duly held meeting of Company's shareholders, no amendment shall be made that would: [i] change the aggregate number of shares of Common Stock which may be delivered under the Plan, except as provided in Section 11; or [ii] change the employees or class of employees eligible to receive ISOs; or [iii] require shareholder approval under federal or state securities laws.

16. EFFECTIVE DATE, TERM AND APPROVAL. The effective date of the Plan is November 20, 1997 (the date of Board adoption of the Plan), subject to approval by stockholders of Company holding not less than a majority of the shares present and voting at its 1998 annual meeting on June 18, 1998. The Plan shall terminate ten (10) years after the effective date of the Plan and no options may be granted under the Plan after such time, but options granted prior thereto may be exercised in accordance with their terms.

17. SEVERABILITY. The invalidity or unenforceability of any provision of the Plan or any option or SAR granted pursuant to the Plan shall not affect the validity and enforceability of the

remaining provisions of the Plan and the options and SARs granted hereunder. The invalid or unenforceable provision shall be stricken to the extent necessary to preserve the validity and enforceability of the Plan and the options SARs granted hereunder.

18. GOVERNING LAW. The Plan shall be governed by the laws of the Commonwealth of Kentucky.

Dated this ____ day of _____, 1997, but effective as of _____.

CHURCHILL DOWNS INCORPORATED

By: /s/Thomas H. Meeker

President and Chief Executive Officer

AMENDMENT NO. 2
TO CHURCHILL DOWNS INCORPORATED
1993 STOCK OPTION PLAN

WHEREAS, the Board of Directors of Churchill Downs Incorporated (the "Company") adopted the Churchill Downs Incorporated 1993 Stock Option Plan (the "Plan"), effective November 18, 1993 and the Plan was subsequently approved by Company's stockholders; and

WHEREAS, Company reserved the right to amend the Plan in Section 8 thereof; and

WHEREAS, Company now desires to amend the Plan and outstanding options to provide for acceleration of vesting upon a change in control in Company;

NOW, THEREFORE, BE IT:

RESOLVED that the Plan is hereby amended, effective for all outstanding options, as follows:

1. Section 5 shall be amended by the addition of the following new subsection L at the end thereof:

L. ACCELERATION OF OPTION VESTING. The exercise dates of outstanding options shall accelerate and options shall become fully exercisable on or after the date of a Change in Control; provided, however, that any acceleration that would cause the option to exceed the \$100,000 exercisability limitation set forth in Section 4 with respect to an incentive stock option shall be made only with the written consent of the Optionee. "Change in Control" means: (a) the sale, lease, exchange or other transfer of all or substantially all of the assets of Company (in one transaction or in a series of related transactions) to a person that is not controlled by Company, (b) the approval by Company shareholders of any plan or proposal for the liquidation or dissolution of Company, or (c) a change in control of Company of a nature that would be required to be reported (assuming such event has not been "previously reported") in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the effective date of the Plan, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, whether or not Company is then subject to such reporting requirement; provided, however, that, without limitation, such a change in control shall be deemed to have occurred at such time as (i) any Person becomes after the date this Plan is approved or ratified by Company's shareholders the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of 30% or more of the combined voting power of Company's outstanding securities ordinarily having the right to vote at elections of directors, or (ii) individuals who constitute the board of directors of Company on the date this Plan is approved or ratified by Company's shareholders cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to such date whose election, or nomination for election by Company's shareholders, was approved by a vote of at least a majority of the directors comprising or deemed

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pursuant hereto to comprise the Board on the date this Plan is approved or ratified by Company's shareholders (either by a specific vote or by approval of the proxy statement of Company in which such person is named as a nominee for director) shall be, for purposes of this clause (ii) considered as though such person were a member of the Board on the date this Plan is approved or ratified by Company's shareholders.

2. Other than as set forth above, the Plan is ratified, confirmed and approved in its entirety.

CERTIFICATE OF SECRETARY

I, Alexander M. Waldrop, Secretary of Churchill Downs Incorporated, certify that the foregoing Amendment No. 2 to the Churchill Downs Incorporated 1993 Stock Option Plan was adopted by the Board of Directors of Churchill Downs Incorporated on the day of , 1997.

/S/ALEXANDER M. WALDROP
Alexander M. Waldrop

1

U.S. Dollars

YEAR	
DEC-31-1997	
JAN-01-1997	
DEC-31-1997	
	1
	9,280,233
	0
	7,086,889
	175,621
	0
	16,907,611
	104,554,196
	41,391,429
	85,848,808
24,940,103	
	0
	3,614,567
0	
	0
	49,777,930
85,848,808	
	118,907,367
118,907,367	
	95,424,096
	104,502,079
	900,171
	0
	332,117
	14,973,342
	5,824,782
9,148,560	
	0
	0
	0
	9,148,560
	1.25
	1.25

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
	3,493,042
0	
	0
	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
	1.08
	1.08

U.S. Dollars

	YEAR
	DEC-31-1995
	JAN-01-1995
	DEC-31-1995
	1
	5,856,188
	0
	2,098,901
	35,000
	0
	8,504,909
	97,451,463
	33,101,934
	77,486,482
18,938,838	
	0
	3,504,388
0	
	0
	43,148,769
77,486,482	
	92,434,216
	92,434,216
	73,768,482
	82,129,006
	521,703
	35,000
	572,779
	10,254,135
	4,051,000
0	
	0
	0
	0
	6,203,135
	0.82
	0.82

U.S. Dollars

9-MOS
 DEC-31-1997
 JAN-01-1997
 SEP-30-1997
 1
 11,030,692
 0
 11,627,361
 115,621
 0
 23,206,517
 104,059,771
 40,227,530
 92,841,946
 27,092,588
 0
 3,613,697
 0
 0
 53,405,649
 92,841,946
 90,488,275
 90,488,275
 69,391,492
 75,813,299
 638,765
 0
 255,930
 15,057,811
 5,940,000
 9,117,811
 0
 0
 0
 9,117,811
 (0.25)
 (0.25)

U.S. Dollars

	6-MOS
	DEC-31-1997
	JAN-01-1997
	JUN-30-1997
	1
	16,156,852
	0
	12,472,948
	115,621
	0
	29,328,116
	102,842,179
	39,195,894
	96,616,380
28,368,420	
	0
	3,493,042
0	
	0
	55,224,858
96,616,380	
	74,058,499
74,058,499	
	51,986,126
	56,378,253
	395,484
	0
	148,710
	17,927,020
	6,990,000
10,937,020	
	0
	0
	0
	10,937,020
	1.75
	1.75

U.S. Dollars

3-MOS
 DEC-31-1997
 JAN-01-1997
 MAR-31-1997
 1
 7,084,056
 0
 3,918,264
 115,621
 0
 13,053,551
 101,086,691
 38,158,464
 79,615,796
 25,359,921
 0
 3,493,042
 0
 0
 42,439,152
 79,615,796
 13,278,864
 13,278,864
 14,424,004
 16,414,287
 196,953
 0
 80,216
 (3,018,686)
 (1,170,000)
 0
 0
 0
 0
 0
 (1,848,686)
 (0.25)
 (0.25)

U.S. Dollars

9-MOS
 DEC-31-1996
 JAN-01-1996
 SEP-30-1996
 1
 9,546,648
 0
 3,152,738
 35,000
 0
 12,962,393
 99,743,493
 36,141,096
 80,387,746
 21,043,356
 0
 3,493,013
 0
 46,717,875
 80,387,746
 80,141,506
 80,141,506
 61,064,016
 66,729,684
 511,168
 35,000
 238,515
 13,684,475
 5,490,000
 0
 0
 0
 0
 8,194,475
 (0.21)
 (0.21)

U.S. Dollars

6-MOS
 DEC-31-1996
 JAN-01-1996
 JUN-30-1996
 1
 14,028,675
 0
 5,553,215
 35,000
 0
 19,788,965
 98,852,730
 35,128,935
 87,559,114
 23,560,276
 0
 3,504,388
 0
 0
 50,817,071
 87,559,114
 66,490,002
 66,490,002
 46,397,876
 50,295,750
 176,435
 35,000
 147,035
 16,223,652
 6,400,000
 0
 0
 0
 0
 9,823,652
 1.59
 1.59

1

U.S. Dollars

	3-MOS
	DEC-31-1996
	JAN-01-1996
	MAR-31-1996
	1
	7,305,232
	0
	957,397
	35,000
	0
	10,124,665
	98,144,122
	34,115,683
	78,651,422
27,940,423	
	0
	3,504,388
0	
	0
	41,143,722
78,651,422	
	11,550,753
	11,550,753
	13,220,218
	14,994,085
	91,317
	35,000
	96,198
	(3,448,213)
	1,375,000
0	
	0
	0
	0
	(2,073,213)
	(0.27)
	(0.27)