

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

**For the quarterly period ended June 30, 2002**

**OR**

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

**For the transition period from \_\_\_\_ to \_\_\_\_**

**Commission file number 0-1469**

CHURCHILL DOWNS INCORPORATED

(Exact name of registrant as specified in its charter)

Kentucky

(State or other jurisdiction of incorporation or  
organization)

61-0156015

(IRS Employer Identification No.)

700 Central Avenue, Louisville, KY 40208

Address of principal executive offices)

(Zip Code)

(502) 636-4400

(Registrant's telephone number, including area code)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

The number of shares outstanding of registrant's common stock at August 13, 2002 was 13,127,138 shares.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHURCHILL DOWNS INCORPORATED  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

ASSETS	<u>June 30,</u> <u>2002</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2001</u>	<u>June 30,</u> <u>2001</u> <u>(unaudited)</u>
Current assets:			
Cash and cash equivalents	\$ 26,381	\$ 15,732	\$ 23,870
Restricted cash	16,931	10,535	18,455
Accounts receivable, net	35,814	28,472	39,587
Deferred income tax assets	2,022	2,806	1,684
Other current assets	6,093	2,177	3,681
Total current assets	<u>87,241</u>	<u>59,722</u>	<u>87,277</u>
Other assets	12,064	11,475	10,981
Plant and equipment, net	338,696	339,419	343,402
Goodwill, net	52,239	52,239	52,936
Intangible assets, net	7,678	7,860	8,049
	<u>\$497,918</u>	<u>\$470,715</u>	<u>\$502,645</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 75,070	\$ 40,493	\$ 69,731
Accrued expenses	36,056	31,452	36,609
Dividends payable	-	6,549	-
Income taxes payable	5,155	971	6,517
Deferred revenue	5,842	14,241	4,052
Long-term debt, current portion	490	561	2,461

Total current liabilities	122,613	94,267	119,370
Long-term debt, due after one year	116,672	132,787	143,036
Other liabilities	13,585	11,302	12,475
Deferred income taxes	15,119	15,124	15,133
Commitments and contingencies	-	-	-
Shareholders' equity:			
Preferred stock, no par value; 250 shares authorized; no shares issued	-	-	-
Common stock, no par value; 50,000 shares authorized; issued: 13,115 shares June 30, 2002, 13,098 shares December 31, 2001, and 13,084 shares June 30, 2001	125,132	124,750	124,485
Retained earnings	105,923	94,850	90,258
Accumulated other comprehensive loss	(1,061)	(2,300)	(2,047)
Note receivable for common stock	(65)	(65)	(65)
	<u>229,929</u>	<u>217,235</u>	<u>212,631</u>
	<u>\$497,918</u>	<u>\$470,715</u>	<u>\$502,645</u>

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

**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**for the six and three months ended June 30, 2002 and 2001**  
**(Unaudited)**  
**(In thousands, except per share data)**

	<b>Six Months Ended</b>		<b>Three Months Ended <u>June</u></b>	
	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>
Net revenues	\$203,599	\$194,972	\$172,627	\$163,257
Operating Expenses	<u>162,430</u>	<u>154,065</u>	<u>122,701</u>	<u>114,802</u>
Gross profit	41,169	40,907	49,926	48,455
Selling, general and administrative expenses	<u>17,268</u>	<u>15,806</u>	<u>8,872</u>	<u>7,972</u>
Operating income	<u>23,901</u>	<u>25,101</u>	<u>41,054</u>	<u>40,483</u>
Other income (expense):				
Interest income	174	332	93	219
Interest expense	(4,967)	(6,956)	(2,315)	(3,441)
Miscellaneous, net	(591)	(99)	(422)	(148)
	<u>(5,384)</u>	<u>(6,723)</u>	<u>(2,644)</u>	<u>(3,370)</u>
Earnings before provision for income taxes	18,517	18,378	38,410	37,113
Provision for income taxes	<u>(7,444)</u>	<u>(7,443)</u>	<u>(15,302)</u>	<u>(15,218)</u>
Net earnings	<u>\$ 11,073</u>	<u>\$ 10,935</u>	<u>\$ 23,108</u>	<u>\$ 21,895</u>

Earnings per common share data:

Basic	\$0.84	\$0.84	\$1.76	\$1.67
Diluted	\$0.83	\$0.83	\$1.73	\$1.66
Weighted average shares outstanding:				
Basic	13,110	13,065	13,115	13,084
Diluted	13,341	13,185	13,338	13,217

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

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CHURCHILL DOWNS INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
for the six and three months ended June 30,  
(Unaudited)  
(In thousands)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net earnings	\$ 11,073	\$ 10,935
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,661	9,089
Amortization of goodwill	-	706
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Restricted cash	(6,396)	(9,449)
Accounts receivable	(7,342)	(7,051)
Other current assets	(3,916)	(1,317)
Accounts payable	34,577	36,049
Accrued expenses	6,621	1,909
Income taxes payable	4,184	5,426
Deferred revenue	(8,399)	(7,301)
Other assets and liabilities	1,695	1,401
Net cash provided by operating activities	<u>41,758</u>	<u>40,397</u>
Cash flows from investing activities:		
Additions to plant and equipment, net	(8,756)	(9,541)
Net cash used in investing activities	<u>(8,756)</u>	<u>(9,541)</u>
Cash flows from financing activities:		
(Decrease) increase in long-term debt, net	(1,035)	9
Borrowings on bank working line of credit	108,731	103,739
Repayments of bank working line of credit	(112,882)	(106,291)
Borrowings on bank revolving line of credit	33,000	18,000
Repayments of bank revolving line of credit	(44,000)	(28,000)
Payment of dividends	(6,549)	(6,508)
Common stock issued	382	1,258
Net cash used in financing activities	<u>(22,353)</u>	<u>(17,793)</u>
Net increase in cash and cash equivalents	10,649	13,063
Cash and cash equivalents, beginning of period	15,732	10,807
Cash and cash equivalents, end of period	<u>\$ 26,381</u>	<u>\$ 23,870</u>
Supplemental disclosures of cash flow information:		

Cash paid during the period for:

Interest	\$ 4,648	\$ 6,555
Income taxes	\$ 3,260	\$ 1,740

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

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CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended June 30, 2002 and 2001 (Unaudited)  
(\$ in thousands, except per share data)

1. Basis of Presentation

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in Churchill Downs Incorporated's (the "Company") annual report on Form 10-K. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Accordingly, the reader of this Form 10-Q may wish to refer to the Company's Form 10-K for the period ended December 31, 2001 for further information. The accompanying condensed consolidated financial statements have been prepared in accordance with the registrant's customary accounting practices and have not been audited. Certain prior-period financial statement amounts have been reclassified to conform to the current-period presentation. In the opinion of management, all adjustments necessary for a fair presentation of this information have been made and all such adjustments are of a normal recurring nature.

Our revenues and earnings are significantly influenced by our racing calendar. Therefore, revenues and operating results for any interim quarter are not indicative of the revenues and operating results for the year and are not necessarily comparable with results for the corresponding period of the previous year. The Company historically has had very few live racing days during the first quarter, with a majority of our live racing occurring in the second, third and fourth quarters, including the running of the Kentucky Derby and Kentucky Oaks in the second quarter.

2. Long-Term Debt

The Company has a \$250 million line of credit under a revolving loan facility through a syndicate of banks to meet working capital and other short-term requirements and to provide funding for acquisitions. The interest rate on the borrowing is based upon LIBOR plus a spread of 75 to 250 additional basis points, which is determined by certain Company financial ratios. The weighted average interest rate on our outstanding revolving loan borrowings was 2.84% and 5.23% at June 30, 2002 and 2001, respectively. There was \$109.6 million outstanding on the line of credit at June 30, 2002, compared to \$124.7 million outstanding at December 31, 2001, and \$140.6 million outstanding at June 30, 2001. The credit facility contains financial covenant requirements, including specified fixed charge, minimum interest coverage and maximum levels of net worth. The line of credit is collateralized by substantially all of the assets of the Company and its wholly owned subsidiaries, and matures in 2004.

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CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
for the six months ended June 30, 2002 and 2001 (Unaudited)  
(\$ in thousands, except per share data)

3. Financial Instruments

In order to mitigate a portion of the market risk on its variable rate debt, the Company has entered into interest rate swap

contracts with major financial institutions. Under terms of these separate contracts, we receive a LIBOR based variable interest rate and pay a fixed interest rate of 7.015% on a notional amount of \$35.0 million, which matures in March 2003, and 6.40% on a notional amount of \$30.0 million, which matures in November 2002. The variable interest rate paid on the contracts is determined based on LIBOR on the last day of each month, which is consistent with the variable rate determination on the underlying debt.

Effective January 1, 2001 the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Financial Instruments and Hedging Activities," which establishes accounting and reporting standards requiring that every derivative financial instrument be recorded on the balance sheet at its fair value. The statement further requires that the gains and losses related to changes in the fair value of the derivative financial instruments be recorded in the income statement unless certain hedge criteria are met. Gains and losses for qualifying hedges can be deferred in accumulated other comprehensive earnings and recognized in the income statement along with the related results of the hedged item. The statement requires that the Company formally document, designate and assess the effectiveness of such transactions in order to qualify for such hedge accounting treatment.

The Company has designated its interest rate swaps as cash flow hedges of anticipated interest payments under its variable rate agreements. Gains and losses on these swaps that are recorded in other comprehensive income will be reclassified into net income as interest expense, net in the periods in which the related variable interest is paid.

The Company recorded a cumulative-effect-type deferred net loss adjustment of \$0.3 million in accumulated other comprehensive earnings net of related tax benefit of \$0.2 million to recognize the fair value of these swaps upon adoption of SFAS No. 133 on January 1, 2001. The Company expects to reclassify all of the approximately \$1.1 million of the June 30, 2002 net loss (net of related tax benefit of \$0.7 million) recorded in accumulated other comprehensive earnings into net earnings as interest expense, over the next nine months.

CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
for the six months ended June 30, 2002 and 2001 (Unaudited)  
(\$ in thousands, except per share data)

3. Financial Instruments (cont'd)

Comprehensive earnings consist of the following:

	Six months ended June 30, <u>2002</u>	2001 <u>2001</u>
Net Earnings	\$11,073	\$10,935
Cash flow hedging (net of related tax provision of \$789 in 2002 and tax benefit of \$1,303 in 2001)	1,239	(2,047)
Comprehensive earnings	<u>\$12,312</u>	<u>\$ 8,888</u>
	Three months ended June 30, <u>2002</u>	2001 <u>2001</u>
Net Earnings	\$23,108	\$21,895
Cash flow hedging (net of related tax provision of \$266 in 2002 and tax benefit of \$62 in 2001)	418	97
Comprehensive earnings	<u>\$23,526</u>	<u>\$21,992</u>

4. Earnings Per Share

The following is a reconciliation of the numerator and denominator of the earnings per common share computations:

Six months ended June 30,	Three months ended June 30,
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	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Numerator for basic and diluted earnings per share:	\$11,073	\$10,935	\$23,108	\$21,895
Denominator for weighted average shares of Common stock outstanding per share:				
Basic	13,110	13,065	13,115	13,084
Plus dilutive effect of stock options	231	120	223	133
Diluted	13,341	13,185	13,338	13,217
Earnings per common share:				
Basic	\$0.84	\$0.84	\$1.76	\$1.67
Diluted	\$0.83	\$0.83	\$1.73	\$1.66

Options to purchase 1 and 64 shares for the periods ended June 30, 2002 and 2001, 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.

CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
for the six months ended June 30, 2002 and 2001 (Unaudited)  
(\$ in thousands, except per share data)

5. Adoption of Recently Issued Accounting Standard

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes the accounting for goodwill and other intangible assets following their recognition. SFAS No. 142 applies to all goodwill and other intangible assets whether acquired singly, as part of a group, or in a business combination. SFAS No. 142 provides that goodwill and other intangible assets believed to have indefinite lives should not be amortized but should be tested for impairment annually using a fair-value based approach. In addition, SFAS No. 142 provides that other intangible assets other than goodwill should be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 142 was effective for the Company beginning on January 1, 2002. The Company completed the required impairment tests of goodwill and indefinite lived intangible assets during the six months ended June 30, 2002, and no adjustment to the carrying value of goodwill was required. The impact of the adoption of SFAS No. 142 on the Company's results of operations for all periods beginning on or after January 1, 2002 is to eliminate amortization of goodwill. Amortization expense will be reduced by \$1.4 million for 2002 as a result of the adoption of SFAS No. 142.

Following are pro forma results for the six months ended June 30, 2001 assuming goodwill had not been amortized prior to January 1, 2002:

Six Months ended June 30, 2001:

	Net <u>Earnings</u>	Basic earnings <u>per common share</u>	Diluted earnings <u>per common share</u>
Reported net earnings	\$10,935	\$0.84	\$0.83
Adjustment for amortization of goodwill	706	0.05	0.05
Adjusted net earnings	\$ 11,641	\$0.89	\$0.88

Three Months ended June 30, 2001:

	Net <u>Earnings</u>	Basic earnings <u>per common share</u>	Diluted earnings <u>per common share</u>
Reported net earnings	\$21,895	\$1.67	\$1.66
Adjustment for amortization of goodwill	349	0.03	0.02
Adjusted net earnings	\$ 22,244	\$1.70	\$1.68

There has been no change to the carrying value of the Company's net goodwill since January 1, 2002. Net goodwill at June 30, 2002 for Kentucky Operations, Calder Race Course and Churchill Downs Simulcast Network ("CDSN") was \$4.8 million, \$36.4 million and \$11.0 million, respectively.

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CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
for the six months ended June 30, 2002 and 2001 (Unaudited)  
(\$ in thousands, except per share data)

5. Adoption of Recently Issued Accounting Standard (cont'd)

Other intangible assets with indefinite useful lives total \$3.8 million and consist primarily of a future right to participate in the Illinois Horse Race Equity fund, which has not been amortized since the Arlington Park merger.

Other intangible assets which are being amortized are recorded at approximately \$3.9 million at June 30, 2002, which is net of accumulated amortization of \$1.5 million. Amortization expense of these assets was \$0.2 million for the six months ended June 30, 2002 and 2001.

Future estimated aggregate amortization expense on other intangible assets for each of the five fiscal years are as follows:

	Estimated <u>Amortization Expense</u>
2002	365
2003	365
2004	182
2005	166
2006	166

6. Segment Information

The Company has determined that it currently operates in the following seven segments: (1) Kentucky Operations, including Churchill Downs racetrack and its off-track betting facility ("OTB") and Ellis Park racetrack and its on-site simulcast facility; (2) Hollywood Park racetrack and its on-site simulcast facility; (3) Calder Race Course; (4) Arlington Park and its five OTBs; (5) Hoosier Park racetrack and its on-site simulcast facility and the other three Indiana simulcast facilities; (6) CDSN, the simulcast product provider of the Company; and (7) other investments, including Charlson Broadcast Technologies LLC ("CBT") and the Company's other various equity interests which are not material. Eliminations include the elimination of management fees and other intersegment transactions, primarily between CDSN and the racetracks. As a result of reorganization for internal reporting during 2002, the Company's segment disclosures are presented on a new basis to correspond with internal reporting to combine our two Kentucky racetracks and to separately report our CDSN operations. The CDSN segment was designed to increase focus on the distribution of the Company's simulcast signal. CDSN will oversee national and international simulcast and wagering opportunities, as well as the marketing, sales, operations and data support efforts related to the Company-owned racing content. Prior period financial statement amounts have been reclassified to conform to the reorganization for CDSN.



6. Segment Information (cont'd)

The Company's recurring revenues are generated from commissions on pari-mutuel wagering at the Company's racetracks and OTBs, plus simulcast fees, Indiana riverboat admissions subsidy revenue, admissions, concessions revenue, sponsorship revenues, licensing rights and broadcast fees, lease income and other sources.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" in the Company's annual report to stockholders for the year ended December 31, 2001. Earnings before interest, taxes, depreciation and amortization ("EBITDA") should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with accounting principles generally accepted in the United States of America) as a measure of our operating results or cash flows (as determined in accordance with accounting principles generally accepted in the United States of America) or as a measure of our liquidity.

CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
for the six months ended June 30, 2002 and 2001 (Unaudited)  
(\$ in thousands, except per share data)

6. Segment Information (cont'd)

The table below presents information about reported segments for the six months and three months ended June 30, 2002 and 2001:

	<u>Six Months Ended June 30,</u>		<u>Three Months Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net revenues:				
Kentucky Operations	\$ 69,351	\$ 67,686	\$ 63,755	\$ 62,014
Hollywood Park	48,487	52,386	43,455	46,897
Calder Race Course	22,825	13,551	21,571	12,297
Arlington Park	27,634	27,469	21,515	21,077
Hoosier Park	26,663	26,318	14,627	13,885
CDSN	30,742	25,894	30,045	25,636
	<hr/>	<hr/>	<hr/>	<hr/>
Total racing operations	225,702	213,304	194,968	181,806
Other investments	2,580	2,683	1,743	1,768
Corporate revenues	1,011	705	879	704
Eliminations	(25,694)	(21,720)	(24,963)	(21,021)
	<hr/>	<hr/>	<hr/>	<hr/>
	\$203,599	\$194,972	\$172,627	\$163,257
	<hr/>	<hr/>	<hr/>	<hr/>
EBITDA:				
Kentucky Operations	\$ 19,700	\$ 21,665	\$ 24,911	\$ 25,977
Hollywood Park	6,806	8,766	9,023	10,301
Calder Race Course	819	(1,410)	3,894	1,063
Arlington Park	(2,488)	(280)	(227)	1,268
Hoosier Park	3,878	3,151	1,888	1,434
CDSN	7,505	6,121	7,242	6,327
	<hr/>	<hr/>	<hr/>	<hr/>
Total racing operations	36,220	38,013	46,731	46,370
Other investments	248	848	274	620
Corporate expenses	(3,435)	(4,064)	(1,525)	(1,785)
Eliminations	(62)	-	(2)	-
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 32,971	\$ 34,797	\$ 45,478	\$ 45,205
	<hr/>	<hr/>	<hr/>	<hr/>
Operating income (loss):				
Kentucky Operations	\$ 16,766	\$ 18,824	\$ 23,437	\$ 24,573
Hollywood Park	4,136	6,197	7,714	9,001
Calder Race Course	(327)	(3,157)	3,320	214
Arlington Park	(3,894)	(1,389)	(974)	714

Hoosier Park	3,109	2,360	1,502	1,039
CDSN	7,505	6,121	7,242	6,327
	<hr/>	<hr/>	<hr/>	<hr/>
Total racing operations	27,295	28,956	42,241	41,868
Other investments	28	209	314	395
Corporate expenses	(3,406)	(4,064)	(1,523)	(1,780)
Eliminations	(16)	-	22	-
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 23,901	\$ 25,101	\$ 41,054	\$ 40,483
	<hr/>	<hr/>	<hr/>	<hr/>

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CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
for the six months ended June 30, 2002 and 2001 (Unaudited)  
(\$ in thousands, except per share data)

6. Segment Information (cont'd)

	<u>As of</u> <u>June 30, 2002</u>	<u>As of</u> <u>December 31, 2001</u>	<u>As of</u> <u>June 30, 2001</u>
Total assets:			
Kentucky Operations	\$370,165	\$367,277	\$400,527
Hollywood Park	174,849	152,362	177,838
Calder Race Course	86,641	95,237	91,016
Arlington Park	82,138	75,716	83,716
Hoosier Park	38,494	35,062	36,668
CDSN	11,018	11,018	11,165
Other investments	52,005	52,212	46,362
	<hr/>	<hr/>	<hr/>
	815,310	788,884	847,292
Eliminations	(317,392)	(318,169)	(344,647)
	<hr/>	<hr/>	<hr/>
	\$497,918	\$470,715	\$502,645
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Following is a reconciliation of total EBITDA to income before provision for income taxes:

	<u>Six Months Ended June 30,</u>		<u>Three Months Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Total EBITDA	\$32,971	\$34,797	\$45,478	\$45,205
Depreciation and amortization	(9,661)	(9,795)	(4,846)	(4,870)
Interest income (expense), net	(4,793)	(6,624)	(2,222)	(3,222)
	<hr/>	<hr/>	<hr/>	<hr/>
Earnings before provision for income taxes	\$18,517	\$18,378	\$38,410	\$37,113
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7. Significant Accounting Pronouncements (cont'd)

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that opinion). This statement also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The objectives of SFAS No. 144 are to address significant issues relating to the implementation of SFAS No. 121 and to develop a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. Adoption of SFAS No. 144 on January 1, 2002, did not have any impact on our financial position or results of operations for the six months ended June 30, 2002. We do not anticipate that the implementation of this standard will have any significant effect throughout 2002.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB SFAS No. 4, 44 and 64, Amendment of FASB SFAS No. 13, and Technical Corrections." SFAS No. 145 addresses financial accounting and reporting for gains and losses from the extinguishments of debt. This statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishments of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," SFAS No. 13, "Accounting for Leases" and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS No. 145 are effective in fiscal years beginning after May 15, 2002. Management anticipates that the adoption of SFAS No. 145 will not have an effect on the Company's results of operations or financial position.

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CHURCHILL DOWNS INCORPORATED  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information set forth in this discussion and analysis contain various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act. These statements represent our judgment concerning the future and are subject to risks and uncertainties that could cause our actual operating results and financial condition to differ materially. Forward-looking statements are typically identified by the use of terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "predict," "project," "should," "will," and similar words, although some forward-looking statements are expressed differently. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations include: the effect of global economic conditions; the effect (including possible increases in the cost of doing business) resulting from future war and terrorist activities or political uncertainties; the impact of increasing insurance costs; the financial performance of our racing operations; the impact of gaming competition (including lotteries and riverboat, cruise ship and land-based casinos) and other sports and entertainment options in those markets in which we operate; a substantial change in law or regulations affecting our pari-mutuel activities; a substantial change in allocation of live racing days; litigation surrounding the Rosemont, Illinois, riverboat casino; changes in Illinois law that impact revenues of racing operations in Illinois; a decrease in riverboat admissions subsidy revenue from our Indiana operations; the impact of an additional racetrack near our Indiana operations; our continued ability to effectively compete for the country's top horses and trainers necessary to field high-quality horse racing; our continued ability to grow our share of the interstate simulcast market; the impact of interest rate fluctuations; our ability to execute our acquisition strategy and to complete or successfully operate planned expansion projects; the economic environment; our ability to adequately integrate acquired businesses; market reaction to our expansion projects; the loss of our totalisator companies or their inability to keep their technology current; our accountability for environmental contamination; the loss of key personnel and the volatility of our stock price.

*You should read this discussion with the financial statements included in this report and the Company's Form 10-K for the period ended December 31, 2001, for further information.*

## Overview

We conduct pari-mutuel wagering on live Thoroughbred, Quarter Horse and Standardbred horse racing and simulcast signals of races. Additionally, we offer racing services through our other interests.

We own and operate the Churchill Downs racetrack in Louisville, Kentucky, which has conducted Thoroughbred racing since 1875 and is internationally known as the home of the Kentucky Derby, and Ellis Park Race Course, Inc., a Thoroughbred racing operation in Henderson, Kentucky (collectively referred to as "Kentucky Operations"). We also own and operate

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### CHURCHILL DOWNS INCORPORATED

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Hollywood Park, a Thoroughbred racing operation in Inglewood, California; Arlington Park, a Thoroughbred racing operation in Arlington Heights, Illinois; and Calder Race Course, a Thoroughbred racing operation in Miami, Florida. Additionally, we are the majority owner and operator of Hoosier Park in Anderson, Indiana, which conducts Thoroughbred, Quarter Horse and Standardbred horse racing. We conduct simulcast wagering on horse racing at nine simulcast wagering facilities in Kentucky, Indiana and Illinois, as well as at our six racetracks.

Our revenues and earnings are significantly influenced by our racing calendar. Therefore, revenues and operating results for any interim quarter are not indicative of the revenues and operating results for the year and are not necessarily comparable with results for the corresponding period of the previous year. We historically have very few live racing days during the first quarter, with a majority of our live racing occurring in the second, third and fourth quarters, including the running of the Kentucky Derby and Kentucky Oaks in the second quarter.

Our revenues are generated from commissions on pari-mutuel wagering at our racetracks and off-track betting facilities, plus simulcast fees, Indiana riverboat admissions subsidy revenue, admissions, concessions revenue, sponsorship revenues, licensing rights and broadcast fees, lease income and other sources.

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### CHURCHILL DOWNS INCORPORATED

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

#### RESULTS OF OPERATIONS

Pari-mutuel wagering information, including intercompany transactions, for our six live racing facilities including on-site simulcast facilities and nine separate off-track betting facilities ("OTBs"), which are included in their respective racetracks, during the six months ended June 30, 2002 and 2001 is as follows (\$ in thousands):

	<u>Kentucky Operations</u>	<u>Hollywood Park</u>	<u>Calder Race Course</u>	<u>Arlington Park</u>	<u>Hoosier Park</u>
<b>Pari-mutuel revenues:</b>					
Live Racing					
2002 handle	\$ 85,552	\$ 98,938	\$ 63,985	\$ 12,166	\$ 4,634
2002 no. of days	47	50	50	20	57
2001 handle	\$ 84,658	\$109,201	\$ 34,902	\$ 9,607	\$ 6,094
2001 no. of days	46	54	30	14	83

Export simulcasting\*

2002 handle	\$421,890	\$418,782	\$152,237	\$ 52,693	\$ 20,243
2002 no. of days	47	50	50	20	57
2001 handle	\$386,820	\$412,556	\$ 84,938	\$ 30,287	\$ 20,039
2001 no. of days	46	54	30	14	83
Import simulcasting					
2002 handle	\$ 66,249	\$112,200	-	\$176,129	\$ 69,259
2001 no. of days	277	130	-	925	597
2001 handle	\$ 67,938	\$102,525	-	\$161,547	\$ 68,242
2001 no. of days	267	134	-	919	593
Number of OTBs	1	-	-	5	3
Totals					
2002 handle	\$573,691	\$629,920	\$216,222	\$240,988	\$ 94,136
2001 handle	\$539,416	\$624,282	\$119,840	\$201,441	\$ 94,375
<b>Pari-mutuel revenues:</b>					
2002 revenues	\$42,184	\$41,337	\$22,486	\$23,778	\$24,539
2001 revenues	\$40,076	\$43,063	\$15,130	\$23,529	\$23,959

\* Export simulcasting for each racetrack includes handle related to revenues recorded in our new internal operating unit, Churchill Downs Simulcast Network ("CDSN"). Pari-mutuel revenues recorded for CDSN are \$29.4 million and \$25.9 million for the periods ending June 30, 2002 and 2001, respectively.

CHURCHILL DOWNS INCORPORATED  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

**Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001**

Net Revenues

Net revenues during the six months ended June 30, 2002 increased \$8.6 million from \$195.0 million in 2001 to \$203.6 million in 2002. Calder Race Course revenues increased \$9.3 million as a result of an expanded live race meet during 2002 resulting in 20 additional days through June 30, 2002. Kentucky Operations revenues increased \$1.7 million primarily due to record wagering for the Kentucky Derby and Kentucky Oaks. Hollywood Park revenues decreased \$3.9 million primarily due to a decrease of four live racing days in 2002 compared to 2001. CDSN revenues increased \$4.8 million primarily due to increases in overall export simulcasting activity as well as the additional 20 days of racing at Calder and record wagering on the Kentucky Oaks and Kentucky Derby days.

Operating Expenses

Operating expenses increased \$8.3 million from \$154.1 million in 2001 to \$162.4 million in 2002 primarily due to several factors, including increases in 2002 business insurance expenses at all of our racetracks. Calder Race Course also had increases in operating expenses from the 20 additional race days and Hollywood Park's expenses decreased due to the decrease of four live race days discussed above. Kentucky Operations also experienced additional costs related to the incremental Kentucky Derby security measures in May 2002. Increases were offset by a decrease in amortization expense of \$0.7 million related to the adoption of the FASB Statement of Financial Accounting Standard ("SFAS") No. 142 adopted January 1, 2002.

Gross Profit

Gross profit increased \$0.3 million from \$40.9 million in 2001 to \$41.2 million in 2002. Although there was revenue growth during 2002 as a result of increased live racing days at Calder Race Course, record wagering results on Kentucky Derby and Oaks days and an increase for CDSN, these increases were offset by an increase in business insurance expenses, and other operating expenses, as discussed above.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by \$1.5 million from \$15.8 million in 2001 to \$17.3 million in 2002 primarily due to costs incurred by our Kentucky Operations related to the legislative gaming initiatives in 2002 and costs incurred by Arlington Park related to the Illinois riverboat legislation.

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CHURCHILL DOWNS INCORPORATED  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS (Continued)

Other Income and Expense

Interest expense decreased \$2.0 million from \$7.0 million in 2001 to \$5.0 million in 2002 primarily due to the use of available cash to pay down our line of credit, as well as a reduction in the interest rate spread charged within the revolving loan facility and an overall decrease in LIBOR interest rates.

**Three Months Ended June 30, 2002 Compared to Three Months Ended June 30, 2001**

Net Revenues

Net revenues during the three months ended June 30, 2002 increased \$9.4 million from \$163.3 million in 2001 to \$172.6 million in 2002. Calder Race Course revenues increased \$9.3 million resulting from an additional 20 days of live racing due to the racing calendar starting earlier in the year. Kentucky Operation revenues also increased as a result of record wagering for the Kentucky Derby and Kentucky Oaks. These increases were offset by a decrease of \$1.2 million in pari-mutuel revenues at Hollywood Park as a result of a decrease of four live racing days during the quarter compared to prior year. Hollywood Park also had decreases in concessions revenue as a result of outsourcing its food service. CDSN had an increase of \$4.4 million primarily due to overall increases in export simulcasting activity as well as the additional 20 days of racing at Calder and record wagering on the Kentucky Oaks and Kentucky Derby days.

Operating Expenses

Operating expenses increased \$7.9 million from \$114.8 million in 2001 to \$122.7 million in 2002 primarily due to increased expenses at Calder Race Course related to the increase of 20 days of live racing during the quarter. Additional increases during 2002 were due to increases in business insurance expenses. Kentucky Operations also experienced additional costs related to the incremental Kentucky Derby security measures in May 2002. Hollywood Park operating expenses decreased for the quarter consistent with the decreases in revenue as a result of the four fewer live racing days and outsourcing its food service. Increases were also offset by a decrease in amortization expense of \$0.3 million related to the adoption of the FASB Statement of Financial Accounting Standards No. 142 ("FAS 142") adopted January 1, 2002.

Gross Profit

Gross profit increased \$1.5 million from \$48.5 million in 2001 to \$49.9 million in 2002 due to increased revenues for the three months ended June 30, 2002 as a result of increased live racing days at Calder Race Course, record wagering results on Kentucky Derby and Oaks days and an increase in revenue for CDSN. These increases were offset by an increase in business insurance expenses, and other operating expenses, as discussed.

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CHURCHILL DOWNS INCORPORATED  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS (Continued)

Selling, General and Administrative Expenses

SG&A expenses increased by \$0.9 million from \$8.0 million in 2001 to \$8.9 million in 2002 primarily due to costs incurred by our Kentucky Operations related to the legislative gaming initiatives in 2002 and costs incurred by Arlington Park related to Illinois riverboat legislation.

Other Income and Expense

Interest expense decreased \$1.1 million in 2002 primarily due to the use of available cash to pay down our line of credit since June 30, 2001, as well as a reduction in interest rates on the revolving loan facility resulting from the improvement in our leverage ratios and an overall decrease in LIBOR interest rates.

### **Significant Changes in the Balance Sheet June 30, 2002 to December 31, 2001**

Restricted cash increased \$6.4 million due to the timing of the Hollywood Park and Hoosier Park live meets. Hollywood Park and Hoosier Park's increases of \$11.4 million and \$4.1 million, respectively, were offset by a decrease of \$9.3 million at Calder Race Course. Management of the horsemen's cash and accounts payable accounts at Calder Race Course were taken over by the Florida Horseman's Benevolent and Professional Association ("FHBPA"). Restricted cash represents refundable deposits and amounts due to horsemen for purses, stakes and awards.

Accounts receivable balances increased by \$7.3 million in 2002 primarily due to the timing of payments received related to the 2002 live meets for Arlington and Hollywood Park with increases in accounts receivable balances of \$3.3 million and \$4.1 million, respectively.

Other current assets increased \$3.9 million primarily due to an increase of \$1.6 million in prepaid insurance with increases at all of our racetracks and \$1.5 million of prepaid expenses at Arlington Park related to the 2002 Breeders' Cup Championship. Arlington Park will host the event in October 2002.

Accounts payable increased \$34.6 million primarily due to the increase of horsemen accounts, purses payable and other expenses related to the operation of live racing at Arlington Park, Kentucky Operations, Hollywood Park and Hoosier Park. Calder Race Course decreased \$9.3 million primarily due to FHBPA taking over management of the horsemen's payable account.

Dividends payable decreased \$6.5 million at June 30, 2002 due to the payment of dividends in the first quarter of 2002.

Deferred revenue decreased \$8.4 million at June 30, 2002, primarily due to the significant amount of admissions and seat revenue that was received prior to December 31, 2001 recognized as income in May 2002 for the Kentucky Derby and Kentucky Oaks race days.

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## CHURCHILL DOWNS INCORPORATED

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Long-term debt decreased \$16.1 million as the result of the application of current cash flows to reduce borrowings under our bank line of credit during 2002.

### **Significant Changes in the Balance Sheet June 30, 2002 to June 30, 2001**

The long-term debt decrease of \$26.4 million was a result of the use of current cash flows to reduce borrowings under our bank line of credit since June 30, 2001.

### **Liquidity and Capital Resources**

Cash flows provided by operations were \$41.8 million and \$40.4 million for the six months ended June 30, 2002 and 2001, respectively. Cash provided by operations increased slightly as compared to 2001 consistent with results from operations. Management believes cash flows from operations and available borrowings during 2002 will be sufficient to fund our cash requirements for the year, including capital improvements.

Cash flows used in investing activities were \$8.8 million and \$9.5 million for the six months ended June 30, 2002 and 2001, respectively. We used \$8.8 million during 2002 for capital spending at our facilities including \$2.1 million for the Master Plan renovation at our Kentucky Operations. We are planning capital expenditures, including the first phase of our Master Plan renovation, of approximately \$20.0 million in 2002.

Cash flows used in financing activities were \$22.4 million and \$17.8 million for the six months ended June 30, 2002 and 2001, respectively, reflecting the use of cash flows from operations to repay debt. We borrowed \$141.7 million and repaid \$156.9 million on our line of credit and paid dividends of \$6.5 million during 2002.

We have a \$250 million line of credit under a revolving loan facility, of which \$109.6 million was outstanding at June 30, 2002. This line of credit is secured by substantially all of our assets and matures in 2004. This credit facility is intended to meet working capital and other short-term requirements and to provide funding for future acquisitions.

### **Significant Accounting Pronouncements**

We adopted SFAS No. 142, "Goodwill and Other Intangible Assets," during the quarter ended March 31, 2002, as described in Note 5 to the financial statements. The impact of the adoption of SFAS No. 142 on our results of operations for all periods beginning on or after January 1, 2002 is to eliminate amortization of goodwill. Amortization expense will be reduced by \$1.4 million for 2002 as a result of the adoption of SFAS No. 142. We completed the required impairment tests of goodwill and indefinite lived intangible assets during the six months ended June 30, 2002 and no adjustment to the carrying value of goodwill was required.

In October 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The statement addresses

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CHURCHILL DOWNS INCORPORATED  
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that opinion). This statement also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The objectives of SFAS No. 144 are to address significant issues relating to the implementation of SFAS No. 121 and to develop a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. Adoption of SFAS No. 144 on January 1, 2002, did not have any impact on our financial position or results of operations for the six months ended June 30, 2002. We do not anticipate that the implementation of this standard will have any significant effect throughout 2002.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB SFAS No. 4, 44 and 64, Amendment of FASB SFAS No. 13, and Technical Corrections." SFAS No. 145 addresses financial accounting and reporting for gains and losses from the extinguishments of debt. This statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishments of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers," SFAS No. 13, "Accounting for Leases" and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS No. 145 are effective in fiscal years beginning after May 15, 2002. Management anticipates that the adoption of SFAS No. 145 will not have an effect on the Company's results of operations or financial position.

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CHURCHILL DOWNS INCORPORATED

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At June 30, 2002, we had \$109.6 million of debt outstanding under our revolving loan facility, which bears interest at LIBOR based variable rates. We are exposed to market risk on variable rate debt due to potential adverse changes in the LIBOR rate. Assuming the outstanding balance on the revolving loan facility remains constant, a one percentage point increase in the LIBOR rate would reduce annual pre-tax earnings and cash flows by \$1.1 million.

In order to mitigate a portion of the market risk associated with our variable rate debt, we have entered into interest rate swap contracts with major financial institutions. Under terms of these separate contracts we receive a LIBOR based variable interest rate and pay a fixed interest rate of 7.015% on a notional amount of \$35.0 million, which matures in March 2003 and 6.40% on a notional amount of \$30.0 million, which matures in November 2002. Assuming the June 30, 2002, notional amounts under the interest rate swap contracts remain constant, a one percentage point increase in the LIBOR rate would increase annual pre-tax earnings and cash flows by \$0.7 million.



PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Not Applicable

ITEM 2. Changes in Securities and Use of Proceeds

Not Applicable

ITEM 3. Defaults Upon Senior Securities

Not Applicable

ITEM 4. Submission of Matters to a Vote of Security Holders

The registrant's 2002 Annual Meeting of Shareholders was held on June 20, 2002. Proxies were solicited by the registrant's board of directors pursuant to Regulation 14 under the Securities Exchange Act of 1934. There was no solicitation in opposition to the board's nominees as listed in the proxy statement, and all nominees were elected by vote of the shareholders. Voting results for each nominee were as follows:

<u>Class III Director</u>	<u>Votes For</u>	<u>Votes Withheld</u>
Charles W. Bidwill, Jr.	12,004,190	63,086
Robert L. Fealy	12,003,462	63,814
Daniel P. Harrington	12,014,826	52,450
Carl F. Pollard	12,016,292	50,984
Darrell R. Wells	12,016,441	50,835

  

<u>Class I Director</u>	<u>Votes For</u>	<u>Votes Withheld</u>
Leonard S. Coleman, Jr.	11,992,914	74,362

A proposal (Proposal No. 2) to approve an amendment to the Churchill Downs Incorporated 1997 Stock Option Plan to increase the number of shares of Common Stock, No Par Value, available for issuance thereunder from 600,000 to 1,200,000 was approved by a vote of the majority of the shares of the registrant's common stock represented at the meeting: 11,515,849 shares were voted in favor of the proposal; 468,236 shares were voted against; and 83,191 shares abstained.

A proposal (Proposal No. 3) to approve the minutes of the 2002 Annual Meeting of Shareholders' was approved by a vote of the majority of the shares of the registrant's common stock represented at the meeting: 11,629,824 shares were voted in favor of the proposal; 141,319 shares were voted against; and 296,133 shares abstained.

The total number of shares of common stock outstanding as of April 24, 2002, the record date of the Annual Meeting of Shareholders, was 13,114,908.

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PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. Exhibits and Reports on Form 8-K.

A. Exhibits

See exhibit index on page 27.

B. Reports on Form 8-K

Churchill Downs Incorporated filed a Current Report on Form 8-K dated May 8, 2002, attaching our first quarter 2002 earnings release dated May 7, 2002.

## SIGNATURES

Pursuant to the requirements 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

August 13, 2002

\s\Thomas H. Meeker  
 Thomas H. Meeker  
 President and Chief Executive Officer  
 (Principal Executive Officer)

August 13, 2002

\s\Robert L. Decker  
 Robert L. Decker  
 Executive Vice President and Chief Financial Officer  
 (Principal Financial Officer)

August 13, 2002

\s\Michael E. Miller  
 Michael E. Miller  
 Senior Vice President, Finance  
 (Principal Accounting Officer)

EXHIBIT INDEX

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
(3)(a)	Restated Bylaws of Churchill Downs Incorporated as amended	Page 28, Report on Form 10-Q for the fiscal quarter ended June 30, 2002.
(10)(a)	Churchill Downs Incorporated Fourth Amended and Restated 1997 Stock Option Plan	Page 39, Report on Form 10-Q for the fiscal quarter ended June 30, 2002.
(10)(b)	Waiver, Consent and Seventh Amendment to \$250,000,000 Revolving Credit Facility Credit Agreement effective June 30, 2002.	Page 49, Report on Form 10-Q for the fiscal quarter ended June 30, 2002.
(99)(a)	Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.	Page 61, Report on Form 10-Q for the fiscal quarter ended June 30, 2002.

# AMENDED AND 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 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 fourteen (14) members but the number may be increased or decreased by amendment of this Bylaw. The Directors shall be divided into three classes, consisting of four (4) Class I Directors, five (5) Class II Directors and five (5) 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. A person shall not be qualified for election as a Director unless he shall be less than seventy (70) years of age on the date of election. Each Director 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,

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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

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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 five (5) 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 five (5) 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 may appoint and establish a Racing Committee to be composed of up to four (4) Directors who may 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

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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

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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

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agreement or execute and deliver any instruments in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

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

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

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

## ARTICLE VII

### CERTIFICATES FOR SHARES AND THEIR TRANSFER

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

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

## ARTICLE VIII

### FISCAL YEAR

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



**ARTICLE IX**

**WAIVER OF NOTICE**

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

**ARTICLE X**

**INDEMNIFICATION OF OFFICERS AND DIRECTORS**

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

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

**ARTICLE XI**

**FIDELITY BONDS**

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

**ARTICLE XII**

**AMENDMENT OF BYLAWS**

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

**CHURCHILL DOWNS INCORPORATED**  
**FOURTH AMENDED AND RESTATED 1997 STOCK OPTION PLAN**

1. Purpose. The purpose of the Churchill Downs Incorporated 1997 Stock Option Plan is to promote 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.

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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 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).

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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 million two hundred thousand (1,200,000) of Company's authorized shares of Common Stock.

C. Shares Subject to Expired Options. If an option is canceled, 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.

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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, in its discretion, 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 and, in addition, on such terms and conditions deemed appropriate by the Committee and set forth in the Option Agreement.

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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, five (5) years 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; or

[4] two (2) years 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 to 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 herefor, 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.

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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.

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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.

WAIVER, CONSENT AND SEVENTH AMENDMENT

to

\$250,000,000 REVOLVING CREDIT FACILITY

CREDIT AGREEMENT

by and among

CHURCHILL DOWNS INCORPORATED, as the Borrower,

and

THE GUARANTORS PARTY HERETO

and

THE BANKS PARTY HERETO

and

PNC BANK, NATIONAL ASSOCIATION, As Agent,

and

CIBC OPPENHEIMER CORP., As Syndication Agent,

and

BANK ONE, KENTUCKY, N.A., As Documentation Agent

Effective as of June 30, 2002

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**THIS WAIVER, CONSENT AND SEVENTH AMENDMENT TO CREDIT AGREEMENT** (the "**Seventh Amendment**") effective as of June 30, 2002, by and among CHURCHILL DOWNS INCORPORATED, as the Borrower (the "**Borrower**"), the GUARANTORS party to the Credit Agreement (as hereinafter defined), the BANKS party to the Credit Agreement (as hereinafter defined) and PNC BANK, NATIONAL ASSOCIATION, as the Agent (the "**Agent**"), and CIBC OPPENHEIMER CORP., as Syndication Agent and BANK ONE, KENTUCKY, N.A., as Documentation Agent.

**WHEREAS**, reference is made to the Credit Agreement dated April 23, 1999 as amended prior to the date hereof (the "**Credit Agreement**") described above;

**WHEREAS**, capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement;

**WHEREAS**, the Borrower is undertaking certain renovations and improvements at the Borrower's Churchill Downs facility located at 700 Central Avenue in the City of Louisville, Kentucky (the "**Churchill Property**") pursuant to the Master Plan (as defined below);

**WHEREAS**, the Borrower has requested that certain capital expenditures made by the Borrower pursuant to the Master Plan be excluded from the definition of Fixed Charges;

**WHEREAS**, the Agent and the Required Banks have agreed to so amend the Credit Agreement as more fully set forth herein; and

**WHEREAS**, the Borrower is contemplating entering into a series of transactions with the City of Louisville, Kentucky or Greater Louisville (the "**City**") and a Guarantor, Churchill Downs Investment Company ("**CDIC**"), wherein the following would occur:

(a) the Borrower would transfer the real property and certain tangible personal property comprising the Churchill Property pursuant to a deed (the "**Deed**") and bill of sale (the "**Bill of Sale**") to the City (the "**Property Transfer**"), which Property



Transfer shall be subject to that certain Open-End Mortgage, Security Agreement and Fixture Filing dated as of April 23, 1999 made by the Borrower in favor of PNC Bank, National Association, as Agent for the Banks party to the Credit Agreement (the "Existing Mortgage");

(b) the City would assist in the financing of certain renovations at the Churchill Property pursuant to the Master Plan (as defined below) (the "Renovations") through the issuance of that certain Taxable Industrial Building Revenue Bond (Churchill Downs Incorporated Project), in the principal amount of \$250,000,000 or some lesser amount (the "Bond") and pursuant to a Loan Agreement by and among the City, CDIC and the Borrower (the "Loan Agreement");

(c) the City would sell the Bond to CDIC in exchange for cash consideration or for a promissory note made by CDIC in favor of the City in a principal amount equal to the principal amount of the Bond (the "Note") or some combination thereof, which cash consideration or Note the City would transfer or assign to the Borrower; and

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(d) the City would lease the Churchill Property to the Borrower pursuant to that certain Lease Agreement by and between the City and the Borrower (the "Lease") (the transactions set forth in items (a) through (d) are collectively referred to herein as the "IRB Transaction" and the documents listed in items (a) through (d) are collectively referred to herein as the "IRB Transaction Documents"); and

**WHEREAS**, the Borrower and the other Loan Parties have requested that the Agent and the Required Banks consent to the matters described in these recitals, and upon satisfaction of the conditions and subject to the terms of this Seventh Amendment, the Agent and the Required Banks have agreed to so consent as more fully set forth herein.

NOW, THEREFORE, the parties hereto, in consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, covenant and agree as follows:

**1. Incorporation by Reference.**

The recitals and all defined terms set forth therein are hereby incorporated herein by reference in their entirety.

**2. Amendments of Credit Agreement.**

A. The definition of Fixed Charges set forth in Section 1.1 of the Credit Agreement is hereby amended and restated as follows:

"Fixed Charges shall mean for any period of determination, the sum of interest expense, income taxes, scheduled principal installments on Indebtedness with maturities greater than one year (as adjusted for prepayments), dividend payments, scheduled payments under capital leases and non-financed capital expenditures (**excluding any non-financed capital expenditures made pursuant to the Master Plan in an amount not to exceed \$27,000,000 over any four fiscal quarter period**) for such period."

B. A new defined term is hereby added to Section 1.1 of the Credit Agreement as follows:

"Master Plan shall mean those certain plans, specifications and cost summaries of the Borrower which provide for the renovation and improvements of certain portions of the Churchill Property, including, without limitation, the renovation of the grandstands and the Jockey Club, the addition of approximately 66 new corporate suites, the installation of certain new elevators, a mechanical system upgrade, and the addition of new space for catered functions."

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C. Exhibit 7.3.3 [Quarterly Compliance Certificate] to the Credit Agreement is hereby deleted in its entirety and amended and restated in the form of Exhibit A attached to this Seventh Amendment.

**3. Waivers and Consents.**

A. Waiver and Consent to Property Transfer, Etc. under the Credit Agreement.

Subject to the terms and conditions of this Seventh Amendment, upon request of the Borrower, the Agent and the Required Banks hereby (i) agree that the Agent is authorized to consent to the IRB Transaction, the Property Transfer, the purchase of the Bond, the issuance of the Note, the execution and delivery of the Lease, and the execution and delivery of the Loan Agreement, and (ii) waive any application of Sections 7.2.1, 7.2.4, and 7.2.6 of the Credit Agreement to such IRB Transaction, Property Transfer, purchase of the Bond, the issuance of the Note, the execution and delivery of the Lease, and the execution and delivery of the Loan Agreement, provided that such Churchill Property shall continue to be subject to the Existing Mortgage.

B. Consent to Property Transfer, Etc. under the Existing Mortgage.

Subject to the terms and conditions of this Seventh Amendment, upon request of the Borrower, the Agent, as Mortgagee under the Existing Mortgage, hereby agrees to consent to the Property Transfer and the execution and delivery of the Lease, provided that such Churchill Property shall continue to be subject to the Existing Mortgage.

C. Consent to Renovations under the Existing Mortgage.

Subject to the terms and conditions of this Seventh Amendment, the Agent, as Mortgagee under the Existing Mortgage, and the Required Banks hereby consent to the Renovations in accordance with the Master Plan.

#### 4. **Warranties.**

The Loan Parties, jointly and severally, represent and warrant as follows:

A. Delivery of Master Plan.

The Borrower has delivered to the Agent a true, correct and complete copy of the current draft of the Master Plan (as defined in the Credit Agreement, as modified by this Seventh Amendment).

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B. Recitals.

The recitals hereto are true and correct in all material respects.

C. Incorporation into Credit Agreement.

The representations and warranties in this Section 4 are incorporated in Section 5 of the Credit Agreement and any breach of such representations or warranties is a breach under Section 5 of the Credit Agreement.

D. Other Warranties Under the Credit Agreement.

The other representations and warranties of Loan Parties contained in the Credit Agreement, after giving effect to the amendments thereto on the date hereof, are true and correct on and as of the date hereof with the same force and effect as though made by the Loan Parties on such date, except to the extent that any such representation or warranty expressly relates solely to a previous date. The Loan Parties are in compliance with all terms, conditions, provisions, and covenants contained in the Credit Agreement, as amended by this Seventh Amendment.

E. No Event of Default.

No event has occurred and is continuing and no condition exists or will exist after giving effect to this Seventh Amendment and the transactions contemplated herein which constitutes an Event of Default or Potential Default.

#### 5. **Conditions to Effectiveness.**

This Seventh Amendment shall become effective provided that each of the following conditions is satisfied as of the date set forth in such condition:

A. Representations and Warranties.

Each of the representations and warranties of the Loan Parties under Section 4 thereof shall be true and correct on the Seventh Amendment Effective Date, as that term is defined herein.

B. Execution by Required Banks, Agent and Loan Parties.

On or before the Seventh Amendment Effective Date, this Seventh Amendment shall have been executed by the Required Banks, the Agent and the Loan Parties.

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C. Deliveries.

On or before the Seventh Amendment Effective Date, the Borrower shall have delivered to the Agent an opinion of the Borrower's counsel as to the due authorization and enforceability of this Seventh Amendment.

**6. Conditions Relating to the IRB Transaction.**

Upon satisfaction of the following conditions, the Agent is authorized to consent to the transactions contemplated by the IRB Transaction and waive the Credit Agreement provisions applicable thereto as set forth in Section 3 of this Seventh Amendment: (i) the Borrower shall have delivered to the Agent true, correct and complete executed copies of the Lease, the Bond, the Loan Agreement, the Note (if applicable), the Deed and the Bill of Sale, and any documents relating thereto, each in form and substance satisfactory to the Agent, (ii) the Borrower shall have executed and delivered to the Agent for the benefit of the Banks a leasehold mortgage in form and substance satisfactory to the Agent granting to the Agent, for the benefit of the Banks, a first lien on the Borrower's leasehold interest in the Churchill Property, (iii) if applicable, the Borrower shall have executed and delivered to the Agent for the benefit of the Banks a pledge of the Note in form and substance satisfactory to the Agent, (iv) CDIC shall have executed and delivered to the Agent for the benefit of the Banks a pledge of the Bond in form and substance satisfactory to the Agent, (v) the Borrower shall have delivered to the Agent appropriate title bringdowns and endorsements in form and substance satisfactory to the Agent to establish the continuing first priority lien of the Existing Mortgage in favor of the Agent, (vi) the Borrower shall have delivered to the Agent opinions of the Borrower's counsel addressing such matters as the Agent specifies relating to the transactions contemplated by this Seventh Amendment in form and substance satisfactory to the Agent, and (vii) the Borrower shall have advised the Agent that, when taken as a whole, the IRB Transaction will be neutral as to its impact upon the operating statement and balance sheet of the Borrower and its Subsidiaries on a consolidated basis; provided, however, that from and after the date of the Agent's granting of such consent and waiver pursuant to this Seventh Amendment, such consent and waiver shall be deemed to be effective as of the date(s) on which the IRB Transaction Documents become effective.

**7. References to Credit Agreement, Loan Documents.**

Any reference to the Credit Agreement or other Loan Documents in any document, instrument, or agreement shall hereafter mean and include the Credit Agreement or such Loan Document, including such schedules and exhibits, as amended hereby. In the event of irreconcilable inconsistency between the terms or provisions hereof and the terms or provisions of the Credit Agreement or such Loan Document, including such schedules and exhibits, the terms and provisions hereof shall control.

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**8. Force and Effect.**

Each Loan Party reconfirms, restates, and ratifies the Credit Agreement and all other documents executed in connection therewith except to the extent any such documents are expressly modified by this Seventh Amendment and each Loan Party confirms that all such documents have remained in full force and effect since the date of their execution.

**9. Governing Law.**

This Seventh Amendment shall be deemed to be a contract under the laws of the Commonwealth of Kentucky and for all purposes shall be governed by and construed and enforced in accordance with the internal laws of the Commonwealth of Kentucky without regard to its conflict of laws principles.

**10. Counterparts; Effective Date.**

This Seventh Amendment may be signed in any number of counterparts each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Seventh Amendment shall become effective when it has been executed by the Agent, the Loan Parties and the Required Banks and each of the other conditions set forth in Section 5 of this Seventh Amendment has been satisfied (the "Seventh Amendment Effective Date").

[SIGNATURE PAGE 1 OF 5 TO SEVENTH AMENDMENT]

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Seventh Amendment as of the day and year above written.

**BORROWER:**

CHURCHILL DOWNS INCORPORATED

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**GUARANTORS:**

CHURCHILL DOWNS MANAGEMENT COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

CHURCHILL DOWNS INVESTMENT COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

RACING CORPORATION OF AMERICA

By: \_\_\_\_\_  
Title: \_\_\_\_\_

ELLIS PARK RACE COURSE, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

[SIGNATURE PAGE 2 OF 5 TO SEVENTH AMENDMENT]

CALDER RACE COURSE

By: \_\_\_\_\_  
Title: \_\_\_\_\_

TROPICAL PARK, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

CHURCHILL DOWNS CALIFORNIA COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

CHURCHILL DOWNS CALIFORNIA FALL OPERATING COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

CHURCHILL DOWNS CALIFORNIA FOOD SERVICES COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**[SIGNATURE PAGE 3 OF 5 TO SEVENTH AMENDMENT]**

ARLINGTON PARK RACECOURSE, LLC

By: \_\_\_\_\_  
Title: \_\_\_\_\_

ARLINGTON MANAGEMENT SERVICES, LLC

By: \_\_\_\_\_  
Title: \_\_\_\_\_

ARLINGTON OTB CORP.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

QUAD CITY DOWNS, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

CDIP, LLC

By: \_\_\_\_\_  
Title: \_\_\_\_\_

CDIP HOLDINGS, LLC

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**[SIGNATURE PAGE 4 OF 5 TO SEVENTH AMENDMENT]**

**BANKS AND AGENT**

PNC BANK, NATIONAL ASSOCIATION, individually and as Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

BANK ONE, KENTUCKY, N.A.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

CIBC INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

COMERICA BANK

By: \_\_\_\_\_  
Title: \_\_\_\_\_

FIFTH THIRD BANK

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**[SIGNATURE PAGE 5 OF 5 TO SEVENTH AMENDMENT]**

NATIONAL CITY BANK OF KENTUCKY

By: \_\_\_\_\_

Title: \_\_\_\_\_

FIRSTAR BANK, N.A.

By: \_\_\_\_\_

Title: \_\_\_\_\_

BANK OF LOUISVILLE

By: \_\_\_\_\_

Title: \_\_\_\_\_

FIFTH THIRD BANK INDIANA

By: \_\_\_\_\_

Title: \_\_\_\_\_

WELLS FARGO BANK

By: \_\_\_\_\_

Title: \_\_\_\_\_

**Certification of CEO and CFO Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Churchill Downs Incorporated (the "Company") for the quarterly period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Thomas H. Meeker, as President and Chief Executive Officer of the Company, and Robert L. Decker, as Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Thomas H. Meeker

Thomas H. Meeker  
President and Chief Executive Officer  
August 14, 2002

/s/Robert L. Decker

Robert L. Decker  
Executive Vice President and Chief Financial Officer  
August 14, 2002

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.