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

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For Year Ended December 31, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________________ to _________________

Commission File Number 0-1469
CHURCHILL DOWNS INCORPORATED
Exact name of registrant as specified in its charter

KENTUCKY	61-0156015
State or other jurisdiction of Incorporation or Organization	IRS Employer Identification No.
700 CENTRAL AVENUE, LOUISVILLE, KENTUCKY	40208
Address of Principal Executive Offices	Zip Code
Registrant's Telephone Number, Including Area Code	502-636-4400

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

None	None
Title of Each Class registered	Name of Each Exchange on which registered

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

COMMON STOCK, NO PAR VALUE
Title of Class

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

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

As of March 25, 1999, 7,525,041 shares of the Registrant's Common Stock were outstanding, and the aggregate market value of the shares held by nonaffiliates of the Registrant was $131,000,000.

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held on June 17, 1999 are incorporated by reference herein in response to Items 10, 11, 12 and 13 of Part III of Form 10-K. The exhibit index is located on pages 58 to 59.

PART I

ITEM 1. BUSINESS

A. INTRODUCTION

Churchill Downs Incorporated (the "Company") is a racing company that primarily conducts pari-mutuel wagering on live Thoroughbred and Standardbred horse racing and simulcast video feeds of races. Additionally, we offer racing services through our other business interests.

We own and operate our flagship operation, Churchill Downs racetrack, in Louisville, Kentucky ("Churchill Downs"). Churchill Downs has conducted Thoroughbred racing continuously since 1875, and is internationally known as home of the Kentucky Derby. The Churchill Downs operation also encompasses the Louisville Sports Spectrum, a simulcast- wagering facility.

In 1992, we formed Churchill Downs Management Company ("CDMC"), a wholly owned subsidiary that oversees properties we actively manage. CDMC manages Ellis Park Race Course ("Ellis Park"), a Thoroughbred track in Henderson, Kentucky, and the Kentucky Horse Center in Lexington, Kentucky. We acquired ownership of these two facilities in April 1998. Additionally, CDMC manages Hoosier Park in Anderson, Indiana ("Hoosier Park"), of which we are a majority owner. Hoosier Park conducts Thoroughbred, Quarter Horse and Standardbred horse racing. CDMC also manages three Sports Spectrum facilities ("Sports Spectrum") owned by Hoosier Park in Indiana. The Sports Spectrum facilities conduct simulcast wagering on horse racing year-round. We also periodically conduct simulcast wagering at our racetracks.

In November 1997, we formed Churchill Downs Investment Company ("CDIC"), a wholly owned subsidiary, to oversee those investments in which we participate as an equity investor and do not actively manage the operations. Among those investments are NASRIN Services, LLC ("NASRIN"), a telecommunications service provider for the pari-mutuel and simulcasting industries, and EquiSource, LLC ("EquiSource"), a procurement business that assists in the group purchasing of supplies and services for the equine industry. We are a minority investor in both NASRIN and EquiSource. In March 1999, CDIC and Autotote Corporation ("Autotote") formed NASRIN, which operates under the NASRIN banner and is managed on a day-to-day basis by Autotote. Autotote owns 70 percent of NASRIN and CDIC owns 30 percent. Currently, neither NASRIN nor Equisource are material investments for us.

CDIC also holds our minority investment in Kentucky Downs, LLC ("Kentucky Downs"), a Franklin, Kentucky, racetrack that conducts a limited Thoroughbred race meet as well as year-round simulcasting. Turfway Park - a Florence, Kentucky, racetrack - also holds a minority interest in Kentucky Downs and manages its day-to-day operations. In March 1999, Keeneland Association, Inc. ("Keeneland"), a Lexington, Kentucky, racetrack; Dreamport, Inc., a wholly owned subsidiary of GTECH Corporation; and Dusty Corporation, a wholly owned subsidiary of Harrah's Entertainment, Inc., through a jointly owned company, acquired all of Turfway Park's racetrack-related assets. It is not believed that this transaction will have a material effect on the management of Kentucky Downs. Our investment in Kentucky Downs is not material to the Company's operations at this time.

On January 11, 1999, we completed the purchase of a majority ownership interest in Charlson Industries, Inc., a privately held company that provides simulcast graphic software and video services to racetracks and simulcast wagering facilities. Under the purchase agreement, the two parties formed Charlson Broadcast Technologies, LLC ("CBT"). We control a 60% interest in the new venture. The cost of the transaction - including the purchase price, capital commitments and contingent payments - totaled $4.9 million. CBT now owns all the assets formerly owned by Charlson Industries. The new venture is expected to be strategically significant to our development of a comprehensive simulcast product

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

B. LIVE RACING OPERATIONS

We conduct live horse racing at Churchill Downs, Ellis Park and Hoosier Park during each track's respective meets. Live racing produces revenues through pari-mutuel wagering, admissions and seating, concession commissions (primarily the sales of food and beverage items), sponsorship revenues, and license, rights and broadcast fees.

The Kentucky Derby and the Kentucky Oaks, both held at Churchill Downs, continue to be our premier racing events. Churchill Downs has also hosted the Breeders' Cup Championship a record four times, in 1988, 1991, 1994 and 1998. The Breeders' Cup races are held annually for the purpose of determining Thoroughbred champions in eight different events. Racetracks across North America compete for the privilege of hosting the Breeders' Cup races each year. Hosting the Breeders' Cup event has a positive impact on marketing, publicity and financial results.

Churchill Downs

Churchill Downs annually conducts two live Thoroughbred race meets, a Spring Meet (late April through late June) and a Fall Meet (late October through late November).

We own the Churchill Downs racetrack site and improvements located at or adjacent to 700 Central Avenue, Louisville, Kentucky (the "Churchill facility"). The Churchill facility consists of approximately 157 acres of land with a one-mile oval dirt track, a seven-eighths (7/8) mile turf track, permanent grandstands and a stabling area. The physical plant includes clubhouse and grandstand seating for approximately 48,500 persons, a general admission area, and food and beverage facilities ranging from fast food to full-service restaurants. The Paddock Pavilion, a state-of-the-art simulcast-wagering facility designed to accommodate 450 patrons, opened in May 1997. The site also has a saddling paddock, infield accommodations for groups and special events, parking areas for the public, and our office facilities. The backside stable area has sprinkled barns sufficient to accommodate approximately 1,400 horses, and other facilities for backstretch personnel. In September 1998, our board of directors approved the construction of a 114-room brick dormitory for backstretch personnel. This $2.4 million project is expected to be completed during the track's 1999 Spring Meet.

We have made numerous capital improvements to the Churchill facility during the past 10 years in order to better serve our horsemen and patrons. The dirt and turf tracks provide excellent venues for live Thoroughbred racing. We provide additional stabling facilities and a training track at the Louisville Sports Spectrum, where a portion of the property is used as a Thoroughbred stabling and training annex. We converted a former Standardbred track into a three-quarter (3/4) mile dirt track, which is used for training Thoroughbreds. The existing barns on the property were demolished, and we constructed new sprinkled barns sufficient to accommodate approximately 500 horses, providing a year-round base of operation for many horsemen and enabling us to attract new horsemen who desire to race at Churchill Downs.

Our physical plant at the Churchill facility is fully utilized only on those days when live racing is conducted.

Ellis Park Race Course

Ellis Park conducts Thoroughbred racing from late June or early July through Labor Day.

We own the Ellis Park racetrack and improvements located at or adjacent to 3300 U.S. Highway 41 North in Henderson, Kentucky ("Ellis Park facility"). The Ellis Park facility consists of 230 acres of land just north of the Ohio River with a one and one-eighths (1 1/8) mile dirt track, a one-mile turf course, permanent grandstands and a stabling area for 1,290 horses. The physical plant includes clubhouse and grandstand seating for 8,000 people, a general admission area, and food and beverage facilities ranging from fast food to full-service restaurants. The Ellis Park facility also features a saddling paddock, parking areas for the public and office facilities.

Hoosier Park

Hoosier Park conducts live Standardbred racing (mid-April to late August), live Thoroughbred racing (mid-September to late November) and live Quarter Horse racing (late October).

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

Hoosier Park is owned by Hoosier Park, L.P. ("HPLP"), an Indiana limited partnership formed in 1994. We currently own a 77% interest in HPLP through Anderson Park, Inc. ("Anderson"), a wholly owned subsidiary of CDMC. The remaining 23% of HPLP is held by unrelated third parties, Pegasus Group, Inc. ("Pegasus"), and Conseco HPLP, LLC ("Conseco"). Conseco and Pegasus are limited partners of HPLP, and Anderson continues to be the sole general partner of HPLP. HPLP has entered into a management agreement with CDMC under which CDMC has operational control of the day-to-day affairs of Hoosier Park and its related simulcast operations. Through CDMC, we have loaned to HPLP $23.2 million, which includes accrued interest, for the development of the racetrack and related simulcast wagering facilities. CDMC is committed to loan an additional $2.6 million to HPLP, but we do not anticipate any additional investment. The loan bears interest of prime plus 2% (9.75% at December 31, 1998).

Licensing

Kentucky's racetracks, including Churchill Downs and Ellis Park, are subject to the licensing and regulation of the Kentucky Racing Commission ("KRC"), which consists of 11 members appointed by the governor of Kentucky. Licenses to conduct live Thoroughbred race meets and to participate in simulcasting (discussed below) are approved annually by the KRC based upon applications submitted by the racetracks in Kentucky. Although to some extent Churchill Downs and Ellis Park compete with other racetracks in Kentucky for the award of racing dates, the KRC is required by state law to consider and seek to preserve each racetrack's usual and customary live racing dates. Generally, there is no substantial change from year to year in the racing dates awarded to each racetrack. The KRC has awarded Churchill Downs a total of 71 live racing dates in 1999 and Ellis Park a total of 61 days.

In Indiana, licenses to conduct live Standardbred and Thoroughbred race meets, including Quarter Horse races, and to participate in simulcasting are approved annually by the Indiana Horse Racing Commission ("IHRC"), which consists of five members appointed by the governor of Indiana. Licenses are approved annually by the IHRC based upon applications submitted by Hoosier Park. Currently, Hoosier Park is the only facility in Indiana licensed to conduct pari- mutuel wagering on live Standardbred, Quarter Horse or Thoroughbred racing and to participate in simulcasting. The IHRC has awarded Hoosier Park a total of 168 live racing dates in 1999.

A substantial change in the allocation of live racing days at Churchill Downs, Ellis Park or Hoosier Park could adversely impact our operations and earnings in future years.

Service Marks

We hold federal service mark registrations on the names "Kentucky Derby," "Churchill Downs," "Churchill Downs Sports Spectrum," "Kentucky Oaks," "Churchill Charlie" and the Twin Spires design in various categories including entertainment business, apparel, paper goods, printed matter and housewares and glass. We license the use of these service marks and derive revenue from such license agreements.

C. SIMULCASTING OPERATIONS

In the horse racing industry, simulcasting involves sending audio and video signals of live races to off-track facilities, including other racetracks, for the purpose of wagering.

We generate a significant portion of our revenues by sending our signals to other facilities and receiving signals from other tracks. These revenues are earned through pari-mutuel wagering on signals that we both send and receive.

During 1998, we sold the Churchill Downs, Ellis Park and Hoosier Park signals as separate products. The Kentucky Derby signal was packaged with that of Churchill Downs. Starting in 1999, we intend to also offer all of the signals we own as one product.

Ellis Park and Hoosier Park act as year-round simulcast facilities, while Churchill Downs receives signals only during its race meets. The Louisville Sports Spectrum conducts simulcast wagering when Churchill Downs is not operating a live race meet with the exception of Kentucky Derby Day and the immediately following Sunday. The Indiana Sports Spectrums and the Kentucky Off-Track Betting facilities (discussed below) conduct simulcast wagering year-round.

Louisville Sports Spectrum

We own the real property and improvements known as the Louisville Sports Spectrum, located at 4520 Poplar Level Road in Louisville, Kentucky. Formerly a Standardbred racetrack, this property was acquired by us in 1992 and converted into a simulcast wagering facility and Thoroughbred training annex. The 100,000-square-foot Louisville Sports Spectrum is located on approximately 88 acres of land, about seven miles from Churchill Downs.

The Louisville Sports Spectrum provides state-of-the art audio/visual technology, seating for approximately 3,000 persons, parking, offices and related facilities for simulcasting races in Kentucky and throughout the United States. Seven separate areas were created within the structure to accommodate the needs of a variety of patrons, from the seasoned handicapper to the novice player. As mentioned above, the Louisville Sports Spectrum also provides a stabling and training annex for Churchill Downs.

Indiana Sports Spectrums

Hoosier Park owns and operates three simulcast-wagering facilities in Indiana, which are branded with the Churchill Downs Sports Spectrum name. These simulcast wagering facilities provide a statewide distribution system for Hoosier Park's racing signal and additional simulcast markets for our products. The Sports Spectrum at Merrillville, located about 30 miles southeast of Chicago, consists of approximately 27,300 square feet of space. The Sports Spectrum at Fort Wayne consists of approximately 15,750 square feet of space. Hoosier Park also leases space in the Claypool Courts Building in downtown Indianapolis where it operates the Sports Spectrum at Indianapolis. In October 1998, the IHRC approved the expansion of this facility from approximately 17,500 square feet to 24,800 square feet. This project, completed in February 1999, increased capacity by 180 patrons to 630.

Hoosier Park is continuing to evaluate sites for the location of a fourth Sports Spectrum facility. The State of Indiana has enacted legislation that requires a county fiscal body to adopt an ordinance permitting simulcast wagering facilities before such a facility can be located in that county. The county fiscal body may require in the ordinance that the voters of the county must approve the operation of a simulcast-wagering facility in that county. This legislation may affect Hoosier Park's ability to locate its fourth facility in certain counties.

Kentucky Off-Track Betting, Inc.

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

Simulcast wagering facilities developed by KOTB provide additional markets for the intrastate simulcasting of Churchill Downs' and Ellis Park's live races and interstate simulcasting on out-of-state signals. KOTB did not contribute significantly to our operations in 1998 and is not anticipated to have a substantial impact on operations in the future.

In-Home Wagering

Churchill Downs, in conjunction with ODS Entertainment ("ODS") and InterMedia, continues to operate its in-home interactive television wagering system, the first such system in the country. Testing began in July 1995 and has expanded to approximately 1,250 homes in Jefferson County, Kentucky. In-home patrons can wager on Churchill Downs' live racing, as well as intrastate and interstate race signals. We believe development of such in-home technology can be used as an efficient delivery system that could increase revenues and attract new segments of the market to our racetracks.

The second phase of our relationship with ODS will be the launching of the Television Games Network ("TVG"), which is projected to begin in the fourth quarter of 1999. This new network is anticipated to eventually offer 24-hour-a-day programming throughout the United States that will be primarily devoted to developing new fans for racing. Once completed, this would include interactive wagering from home.

D. OTHER SOURCES OF REVENUE

In addition to revenues from live racing and simulcasting, we generate revenues from additional sources.

Riverboat Admissions Tax

To compensate for the adverse impact of riverboat competition, the horse industry in Indiana presently receives $0.65 per $3 admission to riverboats in the state. The horse industry is required to allocate 70% of any revenue received from the subsidy directly for purse expenses, breed development and reimbursement of approved marketing costs. The balance, or 30%, is received by Hoosier Park as the only horse racetrack currently operating in Indiana.

Kentucky Horse Center

We own the real property and improvements known as the Kentucky Horse Center, located at 3380 Paris Pike in Lexington, Kentucky ("KHC"). The KHC is a Thoroughbred training and boarding facility that we acquired with Ellis Park in April 1998. The facility, which sits on 245 acres of land, offers a one-mile dirt track, a five-eighths (5/8) mile training track and stabling for 1,000 horses. Additionally, the KHC has facilities for meetings and larger special events, including a 920-seat auditorium known as the Pavilion. Escorted tours of the KHC's training facilities are offered to the public. KHC's revenues are not material to our operations at this time.

E. OTHER FACTORS AFFECTING THE COMPANY'S BUSINESS

North American bloodstock sales climbed again in 1998, continuing a trend that began in 1997 when the market rebounded dramatically from its decade long slump. According to The Blood-Horse magazine, expenditures for Thoroughbred weanlings, yearlings, 2 year olds and broodmares totaled $816.9 million in 1998 compared to $693 million in 1997, which was the previous record. Beginning in 1995, the number of Thoroughbred foals born each year had also begun to show an increase. These recent increases in bloodstock prices and number of foals are indicators of a resurgence of the Thoroughbred breeding industry, reversing a trend of declines experienced from 1986 to 1995. These recent increases ultimately resulted in an increase in the number of Thoroughbreds available to run in races, which enables racetracks to increase the number of horses participating in live racing.

Churchill Downs, Ellis Park and Hoosier Park were able to effectively compete for horses and experienced a high quality of racing in 1998. Churchill Downs offered record average daily purses that ranked among the highest in the nation. We believe these purses attracted many of the country's top horses and trainers. During Churchill Downs' live race meets, average daily purses reached $436,833. Purse increases at Hoosier Park in 1998 strengthened both its Thoroughbred and Standardbred racing programs and created greater demand from horsemen to race at the Indiana track. Average daily purses of $197,738 resulted in competitive race fields for Hoosier Park's Thoroughbred meet, while average daily purses of $141,535 during its Standardbred meet ranked Hoosier Park behind only The Meadowlands in New Jersey in terms of purse levels. This trend was also evident at Ellis Park, where 1998 average daily purses reached $170,916, compared to $163,546 in 1997. Based on the competitiveness of its racing products in Kentucky and Indiana, we believe we are well positioned to grow our share of the interstate simulcast market.

We generally do not directly compete with other racetracks or simulcast facilities for patrons due to geographic separation of such facilities. However, we compete with other sports, entertainment and gaming options, including riverboat casinos and lotteries, for patrons for both live racing and simulcasting (For a further discussion of the Company's competitive environment, see "Management Discussion and Analysis of Financial Condition and Results of Operations").

We have successfully grown our live racing product and positioned ourself to compete by strengthening our flagship operations, increasing our share of the interstate simulcast market, and geographically expanding our racing operations. We also continue to pursue legislation to allow video lottery terminals at our racetrack facilities in Kentucky as a means to attract new patrons and generate additional revenue for purses and capital investment.

F. ENVIRONMENTAL MATTERS

On January 22, 1992, we acquired certain assets of Louisville Downs, Incorporated for $5,000,000 including the site of the Louisville Sports Spectrum. In conjunction with this purchase, we withheld $1,000,000 from the amount due to the sellers to offset certain costs related to the remediation of environmental contamination associated with underground storage tanks at the site. All of the $1,000,000 hold back had been utilized as of December 31, 1997 and additional costs of remediation have not yet been conclusively determined. The sellers have now received a reimbursement from the State of Kentucky of $995,000 for remediation costs and that amount is now being held in an escrow account to pay further costs of remediation. Approximately $985,000 remains in the account. In addition to the hold back, we have obtained an indemnity to cover the full cost of remediation from the prior owner of the property.

In January 1995, Hoosier Park opened the Churchill Downs Sports Spectrum in Merrillville, Indiana. The 27,300 square foot facility is designed exclusively for the simulcast of horse races and the conducting of pari-mutuel wagering. The Merrillville, Indiana, facility is also subject to contamination related to prior business operations adjacent to the property. In conjunction with the purchase, Hoosier Park withheld $50,000 from the amount due to the seller to offset costs related to remediation of the contamination. The contamination on the property is being remediated under the State of Indiana's voluntary remediation program. The State of Indiana approved the remediation plan in May of 1995. The cost of remediation is not expected to exceed $50,000. In addition to the hold back, Hoosier Park has obtained an indemnity to cover the full cost of remediation from the prior owner of the property.

It is not anticipated that we will have any material liability as a result of compliance with environmental laws with respect to any of our property. Compliance with environmental laws has not materially affected the ability to develop and operate our properties and we are not otherwise subject to any material compliance costs in connection with federal or state environmental laws.

G. EMPLOYEES

We employ approximately 500 full-time employees. Due to the seasonal nature of our live racing business, the number of seasonal and part-time persons employed will vary throughout the year, with peak employment occurring Kentucky Derby week when we employ as many as 2,600 persons. During 1998, average employment per pay period was approximately 1,000 individuals.

ITEM 2. PROPERTIES

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

Upon the closing of our proposed $250 million line of credit, our real and personal property (but not including the property of Hoosier Park, KOTB or Charlson) will be encumbered by liens securing our $250 million credit facility. The shares of stock certain of our subsidiaries will also be pledged to secure this facility.

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

ITEM 3. LEGAL PROCEEDINGS

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

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

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

PART II

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

Our common stock is traded in the over-the-counter market. As of March 29, 1993, our common stock was listed on the National Association of Securities Dealers, Inc.'s Small Cap Market automated quotation system ("NASDAQ"). As of March 24, 1999, there were approximately 3,100 stockholders of record.

The following table sets forth the high and low bid quotations (as reported by NASDAQ) and dividend payment information for our common stock during its last two years:

	1998 - By Quarter				1997 - By Quarter			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High Bid	$25.31	$43.25	$41.44	$36.44	$18.50	$19.00	$21.00	$23.38
Low Bid	$19.31	$24.00	$27.63	$27.25	$16.00	$16.50	$16.25	$20.75
Dividend per share:								
Annual	$.50				$.25			
Special	-				$.25			

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

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

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

ITEM 6. CONSOLIDATED SELECTED FINANCIAL DATA

	Years ended December 31, 1998	1997	1996	1995	1994
Operations:					
Net revenues	$147,300,299	$118,907,367	$107,858,818	$92,434,216	$66,419,460
Operating income	$17,143,410	$14,405,288	$12,314,897	$10,305,210	$9,861,086
Net earnings	$10,518,548	$9,148,560	$8,071,526	$6,203,135	$6,166,353
Basic net earnings per share	$1.41	$1.25	$1.08	$.82	$.82
Diluted net earnings per share	$1.40	$1.25	$1.08	$.82	$.82
Dividend paid per share					
Annual	$.50	$.25	$.25	$.25	$.25
Special	-	$.25	$.08	-	-
Balance Sheet Data At Period End:					
Total assets	$114,650,775	$85,848,808	$80,728,966	$77,486,482	$70,175,840
Working capital (deficiency)	$(7,791,319)	$(8,032,492)	$(10,789,190)	$(10,433,929)	$(10,131,254)
Long-term debt	$13,664,839	$2,712,969	$2,952,607	$6,421,176	$8,683,314
Other Data:					
Stockholders' equity	$65,230,988	$53,392,497	$47,780,880	$46,653,157	$42,003,147
Stockholders' equity per share	$8.67	$7.30	$6.54	$6.17	$5.55
Additions to racing plant and equipment, exclusive of business acquisitions	$3,524,032	$4,568,494	$2,570,795	$8,589,535	$23,310,204

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

CHURCHILL DOWNS INCORPORATED

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

This discussion and analysis includes forecasts of future results of operations which are considered "forward-looking statements" and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Our actual results could differ materially from these forecasts, and there can be no assurance that these forecasts of future results will be achieved. Important factors that could cause actual results to differ materially from the presently estimated results include: 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, a substantial change in allocation of live racing days, the impact of competition from alternative gaming (including riverboat and cruise ship casinos and lotteries) and other sports and entertainment options in those markets in which we operate, a decrease in riverboat admissions revenue from our Indiana operations, Year 2000 computer issues and our success in pursuit of our strategic initiatives designed to attract new patrons and generate additional revenues.

Overview

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

We own and operate Churchill Downs racetrack in Louisville, Kentucky ("Churchill facility"), which has conducted Thoroughbred racing continuously since 1875 and is internationally known as home of the Kentucky Derby. We also own and operate Ellis Park Race Course, a Thoroughbred racetrack, in Henderson, Kentucky ("Ellis Park"), and the Kentucky Horse Center, a Thoroughbred training center, in Lexington, Kentucky. 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 our four simulcast wagering facilities in Louisville, Kentucky, and in Merrillville, Fort Wayne and Indianapolis, Indiana, as well as at our three racetracks.

Because of the seasonal nature of our business, 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 normally earn a substantial portion of our net earnings in the second quarter of each year during which the Kentucky Derby and the Kentucky Oaks are run. The Kentucky Derby and the Kentucky Oaks are run on the first weekend in May.

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

Churchill Downs and Ellis Park, which we acquired during the second quarter of 1998, as well as Kentucky's other racetracks are subject to the licensing and regulation of the Kentucky Racing Commission ("KRC"). The KRC consists of 11 members appointed by the governor of Kentucky. Licenses to conduct live Thoroughbred race meetings and to participate in simulcasting are approved annually by the KRC based upon applications submitted by the racetracks in Kentucky. Although to some extent Churchill Downs and Ellis Park compete with other racetracks in Kentucky for the awarding of racing dates, the KRC is required by state law to consider and seek to preserve each racetrack's usual and customary live racing dates. Generally, there is no substantial change from year to year in the racing dates awarded to each racetrack. Churchill Downs conducted live racing from April 25 through June 28, 1998, and from November 1 through November 28, 1998, for a total of 71 racing days compared to 77 racing days in 1997. Ellis Park conducted live racing from June 29 through September 7, 1998, for a total of 61 racing days compared to 55 days in 1997, which was prior to our acquisition of Ellis Park .

We received approval from the KRC to conduct live racing at Churchill Downs from April 24 through June 27, 1999 ("Spring Meet") and from October 31 through November 27, 1999 ("Fall Meet") for a total of 71 days. Ellis Park has been granted a total of 61 live racing days running from June 28 through September 6, 1999. The total number of days on which Churchill Downs and Ellis Park conduct live racing fluctuates annually according to the calendar year. A substantial change in the allocation of live racing days at Churchill Downs or Ellis Park could adversely impact our operations and earnings in future years.

Churchill Downs hosted Breeders' Cup Day on November 7, 1998. Breeders' Cup Day is sponsored by Breeders' Cup Limited, a tax-exempt organization chartered to promote Thoroughbred racing and breeding. The Breeders' Cup Day races are held annually, featuring $13 million in purses, for the purpose of determining Thoroughbred champions in eight different events. Racetracks across the United States compete for the privilege of hosting the Breeders' Cup Day races each year, and the 1998 Breeders' Cup was our fourth time hosting this event, the most of any racetrack. Although most of the income earned from this event was allocated to Breeder's Cup Limited, hosting the 1998 event had a positive impact on our 1998 results.

In Indiana, licenses to conduct live Standardbred and Thoroughbred race meetings, including Quarter Horse races, and to participate in simulcasting are approved annually by the Indiana Horse Racing Commission ("IHRC"), which consists of five members appointed by the governor of Indiana. Licenses are approved annually by the IHRC based upon applications submitted by Hoosier Park. Currently, Hoosier Park is the only facility in Indiana licensed to conduct live Standardbred, Quarter Horse or Thoroughbred racing and to participate in simulcasting. Quarter Horse races are conducted during some Thoroughbred race days. Hoosier Park conducted live racing from April 17, 1998 through November 28, 1998, for a total of 153 racing days, including 95 days of Standardbred racing and 58 days of Thoroughbred racing (which also includes Quarter Horse races). Hoosier Park received a license to conduct live racing in 1999 for a total of 168 racing days, including 103 days of Standardbred racing and 65 days of Thoroughbred racing. A substantial change in the allocation of live racing days at Hoosier Park could adversely impact our operations and earnings in future years.

We employ approximately 500 full-time employees. Due to the seasonal nature of our live racing business, the number of seasonal and part-time persons employed will vary throughout the year, with peak employment occurring Kentucky Derby week when we employ as many as 2,600 persons. Through December 31, 1998, average full-time and seasonal employment per pay period was approximately 1,000 individuals.

We generally do not directly compete with other racetracks or simulcast wagering facilities for patrons due to geographic separation of such facilities. However, we compete with other sports, entertainment and gaming options, including riverboat casinos and lotteries, for patrons for both live racing and simulcasting. We attempt to attract patrons by providing the highest quality racing products in attractive entertainment facilities with fairly priced, appealing concession services. Churchill Downs is the premier racetrack in Kentucky for both live racing and simulcasting, based upon total handle and attendance, and Hoosier Park is the only facility in Indiana providing pari-mutuel wagering on live racing.

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

The development of riverboat gaming facilities began in Indiana pursuant to authorizing legislation passed by the state of Indiana in 1993. Illinois had previously authorized riverboat gaming. There are currently five riverboat casinos operating on the Ohio River along Kentucky's border -- including two in the southeastern Indiana cities of Lawrenceburg and Rising Sun, one in southwestern Indiana in Evansville and one at Metropolis, Illinois. The fifth riverboat casino, licensed to RDI/Caesars World, opened in November 1998 in Harrison County, Indiana, 10 miles from Louisville. Admission and handle figures at the Churchill Downs racetrack during the RDI/Caesars World's opening week in November 1998, were not significantly different from the same period in 1997. However, during December 1998, when the RDI/Caesars riverboat casino and the Louisville Sports Spectrum ("Sports Spectrum") were concurrently open, admission and handle numbers at the Sports Spectrum decreased from those numbers for the same period in 1997. At this time, we cannot determine the extent to which the decrease was due to the new riverboat casino in the Louisville market. Other factors, such as inclement weather, may also have had an impact.

The Indiana Gaming Commission voted in September 1998 to grant a license to open a sixth Indiana riverboat along the Ohio River in Switzerland County, about 70 miles from Louisville. The license holder, Hollywood Park-Boomtown, Inc., plans to build a riverboat casino, hotel and resort complex near Vevay, Indiana. Hollywood Park estimates the resort will open as early as the third quarter of 2000.

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

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

Additionally, the Pokagon Band of the Potawatomi Indian Tribe has expressed an interest in establishing land-based casinos in northeastern Indiana and southwestern Michigan although Indiana Governor Frank O'Bannon has publicly expressed his opposition at this time to any further expansion of casino gaming in Indiana. We continue to anticipate that development of any such Indian casino will negatively impact pari-mutuel wagering activities at Hoosier Park's Indiana facilities. However, the extent of the impact is unknown at this time due, in part, to the uncertain geographic distances between Hoosier Park's operations and the potential casino sites.

The integration of alternative gaming products at our racetrack facilities is one of our four core business strategies developed to position us to compete in this changing environment. Implementing these strategies, we have successfully grown our live racing product by strengthening our flagship operations, increasing our share of the interstate simulcast market, and geographically expanding our racing operations in Kentucky and into Indiana. Alternative gaming in the form of video lottery terminals and slot machines should enable us to more effectively compete with Indiana riverboat casinos and provide new revenue for purse money and capital investment. We continue to pursue legislation to allow video lottery terminals at our racetrack facilities in Kentucky. Currently, we are working with members of the Kentucky horse industry to establish a consensus for a plan to operate video lottery terminals exclusively at Kentucky's racetracks.

The horse industry in Indiana presently receives $.65 per $3 admission to Indiana riverboats to compensate for the effect of riverboat competition. The horse industry is required to allocate 70% of such revenue directly for purse expenses, breed development and reimbursement of approved marketing costs. The balance, or 30%, is received by Hoosier Park as the only horse racetrack currently operating in Indiana. Riverboat admissions revenue from our Indiana operations increased $5.1 million for the year ended December 31, 1998 compared to 1997, as a result of the opening of additional riverboats. The net increase in riverboat admissions revenue, after required purse and marketing expense increases of approximately $3.2 million, is $1.8 million.

Legislation which seeks to cap Hoosier Park's share of the $.65 subsidy was introduced in the 1999 session of the Indiana General Assembly. A significant change in Hoosier Park's share of the subsidy would impact funding for operating expenditures, potentially reducing the number of race dates at Hoosier Park and, in all likelihood, re-emphasize the need for the integration of alternative gaming products at the Hoosier Park racetrack in order for it to effectively compete with riverboat casinos.

We have partnered with ODS Technologies L.P. (ODS) in the development and operation of an in-home interactive wagering system in Jefferson County, Kentucky, since 1995. The second phase of our relationship with ODS is the launching of the Television Games Network (TVG), originally projected for the fourth quarter of 1998. In June 1998, an arbitration panel approved United Video Satellite Group, Inc.'s proposal to acquire all of the assets of ODS. United Video, which previously owned approximately 10% of ODS, has bought out the majority partners and assumed control over agreements between ODS and 12 racetracks, including Churchill Downs. At this time, we cannot assess any impact of this development on our in- home wagering operations.

RESULTS OF OPERATIONS

Wagering information, or handle, and attendance for our three live racing facilities and four separate simulcast wagering facilities during the years ended December 31, 1998 and 1997 are as follows:

($ in thousands, except for number of days)

	Churchill Downs	Hoosier Park	Ellis Park*
Live Racing			
1998 handle	$128,250	$16,092	$20,944
1998 no.of days	70	153	61
1997 handle	$132,290	$16,937	$17,215
1997 no. of days	77	142	55
Simulcast sending			
1998 handle	$421,200	$62,720	$116,735
1998 no. of days	70	153	61
1997 handle	$424,194	$39,772	$87,799
1997 no. of days	77	142	55
Simulcast receiving			
1998 handle	$138,443	$133,770	$38,065
1998 no. of days	232	1,219	288
1997 handle	$132,431	$130,020	$35,954
1997 no. of days	212	1,215	294

* Handle information for Ellis Park is provided for years ended December 31, 1998 and 1997. However, only revenues generated since its acquisition on April 21, 1998 have been included in the Company's results of operations.

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

Comparison of Profit and Loss for Year Ended December 31, 1998 to 1997

Net Revenues

Net revenues increased $28.4 million (24%) from $118.9 million in 1997 to $147.3 million in 1998. Churchill Downs revenues increased $3.5 million (5%) due primarily to increases in simulcast revenues and license, rights, broadcast revenues and increased corporate sponsorship of the Kentucky Derby. Hoosier Park revenues increased $6.2 million (15%) primarily due to increased simulcasting revenues and a $5.1 million increase in the riverboat gross admissions subsidy of which a portion was required to be spent on purses and marketing expenses. Ellis Park contributed $17.4 million to 1998 net revenues since its acquisition in the second quarter. Other operations, including the Kentucky Horse Center which was also acquired in the second quarter, comprised the remaining $1.3 million of the increase.

Operating Expenses

Operating expenses increased $23.7 million (25%) from $95.4 million in 1997 to $119.1 million in 1998. Churchill Downs operating expenses increased $1.9 million (3%) due primarily to increased marketing, simulcast, totalisator and video expenses. Hoosier Park operating expenses increased $5.0 million (14%) due primarily to required increases in purses and marketing expenses of $2.8 million and $0.8 million, respectively, related to the riverboat admissions subsidy. Ellis Park increased 1998 operating expenses by $15.4 million since its acquisition. Other operations, including the Kentucky Horse Center, accounted for the remaining $1.4 million of the increase in operating expenses.

Gross Profit

Gross profit increased $4.7 million (20%) from $23.5 million in 1997 to $28.2 million in 1998. Churchill Downs and Hoosier Park gross profit increased $1.5 million (9%) and $1.2 million (25%), respectively, for the reasons described above. The Ellis Park acquisition contributed $2.0 million to 1998 gross profit. The slight decrease in the gross profit percentage from 19.7% in 1997 to 19.2% in 1998 was due mainly to a lower gross profit percentage at Ellis Park due to purse increases implemented to improve the quality of racing at the track.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by $2.0 million (22%) from $9.1 million in 1997 to $11.1 million in 1998. SG&A expenses at Churchill Downs increased $1.3 million (19%) due primarily to increased corporate staffing, compensation and business development expenses. Hoosier Park SG&A expenses decreased by $0.2 million (9%) due primarily to declines in professional fees and wages. The acquisition of Ellis Park contributed $0.6 million to the increase in 1998 SG&A expenses. Other operations accounted for the remaining $0.3 million of the increase. SG&A expenses as a percentage of net revenues decreased slightly from 7.6% in 1997 to 7.5% in 1998.

Other Income and Expense

Interest expense increased $0.6 million from $0.3 million in 1997 to $0.9 million in 1998 as a result of borrowings to finance our second quarter acquisition of Ellis Park and the Kentucky Horse Center.

Income Tax Provision

Our income tax provision increased by $1.0 million from $5.8 million in 1997 to $6.8 million in 1998 primarily as the result of an increase in pre-tax earnings of $2.3 million. The effective income tax rate increased slightly from 38.9% in 1997 to 39.1% in 1998 due primarily to non-deductible amortization expense related to the acquisition of Ellis Park and the Kentucky Horse Center and increases in other permanent differences, partially offset by the reversal of the valuation allowance on certain state income tax net operatin loss carryforwards.

Comparison of Profit and Loss for Year Ended December 31, 1997 to 1996

Revenues

Net revenues increased $11.0 million (10%)from $107.9 million in 1996 to $118.9 million in 1997. Churchill Downs revenues increased $2.8 million (4%) due primarily to increases in simulcast revenues that were generated as a result of the new Paddock Pavilion simulcast wagering facility used during live racing. Hoosier Park revenues increased $8.2 million (25%) primarily due to increased simulcasting revenues and a $7.9 million increase in the riverboat gross admissions subsidy of which a portion was required to be spent on purses and marketing expenses.

Operating Expenses

Operating expenses increased $8.5 million (10%) from $86.9 million in 1996 to $95.4 million in 1997. Churchill Downs operating expenses increased $3.2 million (6%) due mainly to increased purses and wages and also increased marketing, simulcast and video expenses. Hoosier Park operating expenses increased $5.3 million (18%) due primarily to increases in purses and marketing expenses of $3.9 million and $1.0 million, respectively, related to the riverboat admissions subsidy.

Gross Profit

Gross profit increased $2.5 million (12%) from $21.0 million in 1996 to $23.5 million in 1997. Churchill Downs gross profit decreased $0.4 million (2%) and Hoosier Park gross profit increased $2.9 million (86%) for the reasons described above. The gross profit percentage increased slightly from 19.5% in 1996 to 19.7% in 1997.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by $0.4 million (5%) from $8.7 million in 1996 to $9.1 million in 1997. SG&A expenses at Churchill Downs increased $0.4 million (11%) due primarily to increased corporate staffing, compensation and business development expenses. Hoosier Park SG&A expenses decreased by $0.2 million (8%) while SG&A expenses at other operations were up by $0.2 million.

Other Income and Expense

Interest income increased $0.2 million from $0.4 million in 1996 to $0.6 million in 1998 as a result of the additional earnings generated by our short-term cash investments (cash equivalents). Miscellaneous income decreased $0.4 million from $0.7 million in 1996 to $0.3 million in 1998 as the result of the gain recognized on Conseco's acquisition of 10% of Hoosier Park in 1996.

Income Tax Provision

Our income tax provision increased by $0.9 million from $4.9 million in 1996 to $5.8 million in 1997 primarily as the result of an increase in pre-tax earnings of $1.9 million. The effective income tax rate increased from 38.1% in 1996 to 38.9% in 1997 due primarily to increases in permanent differences.

Significant Changes in the Balance Sheet December 31, 1998 to December 31, 1997

The cash and cash equivalent balances at December 31, 1998 of $6.4 million were $2.9 million lower than December 31, 1997, primarily due to aggregate payments on our line of credit which were partially used to fund the Ellis acquisition.

Accounts receivable balances grew by $4.9 million in 1998 due to the increase of $1.5 million in the Indiana riverboat admissions receivable, an increase of $1.1 million in receivables relating to advanced billing for the Kentucky Derby, a $1.0 million increase in simulcast and other operating receivables relating to Churchill Downs' Fall race meet and an increase of $0.9 million in the receivable from the Commonwealth of Kentucky relating to purse expense reimbursements. Additionally, Ellis Park and the Kentucky Horse Center accounted for $0.3 million of the overall increase.

Intangible assets increased $6.5 million as a result of the acquisition of Ellis Park and the Kentucky Horse Center.

Plant and equipment increased $25.0 million during 1998, primarily due to the acquisition of Ellis Park and the Kentucky Horse Center ($22.0 million). Routine capital spending at our operating units made up the remainder of the increase. Accumulated depreciation increased $5.5 million for current year depreciation expense.

We borrowed on our bank line of credit during 1998 primarily for the Ellis acquisition during the second quarter. Additional borrowings on the line of credit during the third and fourth quarters were made to fund operating expenses.

Deferred income tax liabilities increased to $6.9 million in 1998, an increase of $4.6 million from 1997 balances, primarily as a result of the acquisition of Ellis Park and the Kentucky Horse Center.

Significant Changes in the Balance Sheet December 31, 1997 to December 31, 1996

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

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

Other assets at December 31, 1997, increased by $2.3 million due primarily to our investment in Kentucky Downs, LLC.

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

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

Liquidity and Capital Resources

Working capital as of December 31, 1998, 1997 and 1996 follows:

	1998	1997	1996
Deficiency in working capital	$(7,791,319)	$(8,032,492)	$(10,789,190)
	.71 to 1	.68 to 1	.45 to 1

The working capital deficiency results from the nature and seasonality of our business. Cash flows provided by operations were $10.8, $10.5 and $15.1 million for the years ended December 31, 1998, 1997 and 1996, respectively. The net increase of $.3 million in 1998 resulted from a $1.4 million increase in net earnings and $1.2 million increase in depreciation and amortization coupled with the timing of accounts receivable, accounts payable, income taxes payable and deferred revenue balances. Management believes cash flows from operations and available borrowings during 1999 will be sufficient to fund our cash requirements for the year, including capital improvements and any acquisitions.

Cash flows used in investing activities were $20.8, $6.9 and $2.6 million for the years ended December 31, 1998, 1997 and 1996, respectively. The $20.8 million in 1998 is primarily comprised of the cash portion of our purchase of Ellis Park and the Kentucky Horse Center during the second quarter of 1998. The $6.9 million in 1997 primarily represents the acquisition of 24% of Kentucky Downs during the third quarter of 1997 and additional capital spending for the construction of a new on-site simulcast facility in Kentucky. Routine capital spending accounted for a portion of the cash used in investing for 1998 and 1997. The capital additions for all locations, including construction of a $2.4 million stable area dormitory at the Churchill Downs facility, are expected to approximate $7.3 million for 1999.

Cash flows provided by (used in) financing activities were $7.0, $(2.5) and $(10.2) million for the years ended December 31, 1998, 1997 and 1996, respectively. We borrowed $22 million and repaid $11 million on our line of credit during 1998 primarily to finance the purchase of Ellis Park and the Kentucky Horse Center. Cash dividends of $3.7 million were paid to shareholders in 1998 (declared in 1997) versus $2.4 million paid in 1997 (declared in 1996).

We have a $100 million line of credit, of which $89 million was available at December 31, 1998, to meet working capital and other short-term requirements and to provide funding for acquisitions scheduled to close in 1999. We are arranging a new $250 million line of credit which will replace the $100 million line of credit. We anticipate closing on the new line of credit during the second quarter of 1999.

Impact of the Year 2000 Issue

The "Year 2000 Issue" is the result of computer programs that were written using two digits rather than four to define the applicable year in date-dependent systems. If our computer programs with date-sensitive functions are not Year 2000 compliant, they may be unable to distinguish the year 2000 from the year 1900. This could result in system failure or miscalculations leading to a disruption of business operations.

Certain of our mission critical operations are dependent upon computer systems and applications. These systems are either directly owned and controlled by us or are provided under contract by third party technology service providers. To address the Year 2000 issue, we have categorized the Year 2000 Issue into four principal areas.

A) Systems Owned By the Company

The first area is related to systems that are owned by us. These systems include application software and dedicated hardware that administrate our core operations. In addition, there are numerous applications that provide administrative support and management reporting functions. Some of these applications have been developed internally and others have been purchased.

To address Year 2000 compliance across this broad category of systems, we have broken each system down into its most elemental pieces in order to study the hardware including any embedded chip technology/firmware, the operating systems and finally, the applications themselves.

Hardware including any embedded chip technology/firmware that was not Year 2000 compliant has been identified and replaced as part of the routine turnover of technology capital. Hardware remaining to be replaced is scheduled for upgrading during the first half of 1999. By June 1999, all hardware and embedded chip technology/firmware owned by the Company is expected to be Year 2000 compliant.

All operating systems supporting specific applications have been checked by advancing the dates to determine if operating system-level functionality is impacted by the date change. As new operating system upgrades are made available and installed, periodic testing will continue to assure operating system-level functionality is maintained. In addition, we have contacted the developers of the operating systems we use and have received assurances as to their compatibility with the Year 2000 transition.

Application software compliance with the Year 2000 has been certified through a combination of technical consultation with the software developers and testing. Applications developed with internal resources have been written with the Year 2000 compliance in mind using development tools that are Year 2000 compliant. We have received assurances from third parties on Year 2000 compliance for financial reporting, payroll, operations control and reporting and internal communications applications. We require Year 2000 compliance on any software upgrades.

Based on the schedule outlined above, we expect to be Year 2000 compliant with our owned systems prior to the year 2000. The system will be tested by advancing dates to include a majority of the Year 2000 critical dates by the fourth quarter of 1999. However, even though our planned modifications to internally owned hardware and software should adequately address Year 2000 issues, there can be no assurance that unforeseen difficulties will not arise.

B) Technology Services Provided to the Company Under Contract By Third Parties

The second area is services provided to us by third parties. Many of these services are mission critical and could materially impact us should the systems upon which the services are dependent be unable to function.

The totalisator services provided by United Tote are the most critical to our operations. Totalisator services include the calculation of amounts wagered and owed to winning ticket holders. United Tote developed a plan to bring all systems provided to us into Year 2000 compliance during 1998. United Tote and the Company initiated this plan during the second quarter of 1998 by undertaking a comprehensive system hardware and software upgrade that is Year 2000 compliant. The systems were successfully installed in three phases with the last phase having been completed in October 1998. All on-track, intertrack wagering and hub operations are Year 2000 compliant. We will continue to work closely with United Tote to assure that future releases and upgrades are Year 2000 compliant by including this provision as a condition of contracting for future services.

The video services provided by an outside vendor are also important to our operations. Video services include the capture, production and distribution of the television signal for distribution to customers located on our premises and to customers located at remote outlets throughout the nation. We are working closely with the vendor to ensure the software applications that provide the graphical enhancements and other distinguishing features to the televised signal for Churchill Downs and Hoosier Park are Year 2000 compliant. The existing software for the graphical enhancements to the television signal is not Year 2000 compliant. We have contacted the developer of the software package directly and have received assurances that an upgrade to the software will be Year 2000 compliant.

We purchased certain data and statistical information from Equibase for resale to the public. This information is an essential element of our product and is included in printed material made available to our customers to assist in their wagering decisions. Equibase has implemented a Year 2000 remediation plan, which is expected to be completed by the second quarter of 1999.

A variety of other smaller and less critical technology service providers are involved with the Company's product. We have received assurance letters from a majority of these suppliers and will continue to work to receive assurances from those remaining.

Because of the nature of our business and its dependence upon key technology services provided by third parties, we require that all new software and technology services are Year 2000 compliant. This requirement extends to include patches, upgrades and fixes to existing technology services.

In the event that any of our third party service providers do not successfully and timely achieve Year 2000 compliance, and we are unable to replace them with alternate service providers, it could result in a delay in providing our core live racing and simulcasting products to our customers and have a material adverse effect on our business, financial condition and results of operations.

C) Industry-wide Issues

Because a significant portion of our revenues are derived from customers at other racing organizations that are confronted with the same technological issues, including totalisator, video and statistical information services, we have been actively participating in an industry-wide assessment and remedial efforts to address the Year 2000 issue.

D) Feedback Control Systems

A variety of the newer control and regulating systems are date sensitive. Environmental control systems, elevator/escalator systems, fire control and security systems utilize date-sensitive software/embedded chip technology for correct operation. We have systems that perform each of these functions, and are identifying if any of these systems employ technology that may not be Year 2000 compliant. We will work closely with these manufacturers to develop a remedial plan to assure year 2000 compliance if problems are identified.

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

To date, we have incurred less than $25,000 in costs to remediate Year 2000 compliance issues. Our management believes that any future costs to remediate Year 2000 compliance issues will not be material to our financial position or results of operations.

We are currently evaluating our most reasonably likely worst-case Year 2000 scenario and are also developing contingency plans to be implemented as part of our efforts to identify and correct Year 2000 issues affecting our owned systems as well as issues involving third party service providers. We intend to complete both its evaluation of a worst-case Year 2000 scenario and contingency planning by June 30, 1999.

Subsequent Events

On January 13, 1999, we acquired a 60% interest in Charlson Broadcast Technologies, LLC, ("CBT") for the purchase price of $5.4 million. CBT provides simulcast graphic software video services to racetracks and simulcast wagering facilities throughout the United States. The purchase agreement includes provisions for an additional contingent purchase price to be paid by us to the former owners of the 60% interest based upon the achievement of certin operating targets.

On January 21, 1999, we entered into an agreement to acquire all of the outstanding shares of Calder Race Course, Inc., and Tropical Park, Inc. ("Calder"), from KE Acquisition Corp., a private holding company. Terms of the agreement include a purchase price of $86 million subject to certain adjustments. Closing of the acquisition is expected in early April 1999.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our major market risk exposure is primarily due to possible fluctuations in interest rates as they relate to its variable rate debt. We do not enter into derivative financial investments for trading or speculation purposes. As a result, we believe that our market risk exposure is not material to our financial position, liquidity or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors
Churchill Downs Incorporated

In our opinion, the consolidated financial statements listed in the index appearing under Item 14 (a) (1), present fairly, in all material respects, the consolidated financial position of Churchill Downs Incorporated and its subsidiaries as of December 31, 1998, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. In addition, in our opinion, the consolidated financial statement schedule listed in the index appearing under Item 14 (a) (2), presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/PricewaterhouseCoopers
PricewaterhouseCoopers LLP

Louisville, Kentucky
February 24, 1999

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 1998	1997	1996
Current assets:			
Cash and cash equivalents	$ 6,379,686	$ 9,280,233	$ 8,209,414
Accounts receivable	11,968,114	7,086,889	5,218,236
Other current assets	1,049,084	540,489	679,221
Total current assets	19,396,884	16,907,611	14,106,871
Other assets	3,796,292	3,884,080	1,574,714
Plant and equipment, net	83,088,204	63,162,767	62,882,189
Intangible assets, net	8,369,395	1,894,350	2,165,192
	$114,650,775	$85,848,808	$80,728,966
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 6,530,502	$ 5,732,783	$5,403,000
Accrued expenses	8,098,228	7,937,575	8,021,487
Dividends payable	3,762,521	3,658,468	2,375,271
Income taxes payable	257,588	186,642	2,510,508
Deferred revenue	8,412,552	7,344,830	6,511,902
Long-term debt, current portion	126,812	79,805	73,893
Total current liabilities	27,188,203	24,940,103	24,896,061
Long-term debt, due after one year	13,538,027	2,633,164	2,878,714
Outstanding mutuel tickets (payable after one year)	806,573	1,625,846	2,031,500
Deferred compensation	949,187	880,098	825,211
Deferred income taxes	6,937,797	2,377,100	2,316,600
Stockholders' equity:			
Preferred stock, no par value; authorized, 250,000 shares; issued, none	-	-	-
Common stock, no par value; authorized, 20,000,000 shares, issued 7,525,041 , shares 1998, 7,316,934 shares, 1997 and 7,308,524 shares, 1996	8,926,975	3,614,567	3,493,042
Retained earnings	56,598,957	49,842,930	44,352,838
Deferred compensation costs	(229,944)	-	-
Note receivable for common stock	(65,000)	(65,000)	(65,000)
	65,230,988	53,392,497	47,780,880
	$114,650,775	$85,848,808	$80,728,966

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF EARNINGS

	Years ended December 31, 1998	1997	1996
Net revenues	$147,300,299	$118,907,367	$107,858,818
Operating expenses:			
Purses	50,192,973	39,718,374	34,439,143
Other direct expenses	68,895,654	55,705,722	52,438,836
	119,088,627	95,424,096	86,877,979
Gross profit	28,211,672	23,483,271	20,980,839
Selling, general and administrative	11,068,262	9,077,983	8,665,942
Operating income	17,143,410	14,405,288	12,314,897
Other income (expense):			
Interest income	679,782	575,084	390,669
Interest expense	(896,067)	(332,117)	(337,438)
Miscellaneous income	342,423	325,087	673,398
	126,138	568,054	726,629
Earnings before provision for income taxes	17,269,548	14,973,342	13,041,526
Provision for income taxes	6,751,000	5,824,782	4,970,000
Net earnings	$10,518,548	$9,148,560	$8,071,526
Earnings per common share data:			
Basic	$1.41	$1.25	$1.08
Diluted	$1.40	$1.25	$1.08
Weighted average shares outstanding:			
Basic	7,460,058	7,312,052	7,445,542
Diluted	7,539,482	7,320,670	7,447,706

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 1998, 1997 and 1996

	Common Shares	Stock Amount	Retained Earnings	Note Receivable Common Stock	Deferred Compensation Costs	Total
Balances December 31, 1995	7,569,206	$3,504,388	$43,486,460	$ (65,000)	$(272,691)	$46,653,157
Net earnings			8,071,526			8,071,526
Deferred compensation amortization					272,691	272,691
Issuance of common stock at $14.45 per share	7,818	112,970				112,970
Repurchase of common stock	(268,500)	(124,316)	(4,829,877)			(4,954,193)
Cash dividends, $.33 per share			(2,375,271)			(2,375,271)
Balances December 31, 1996	7,308,524	3,493,042	44,352,838	(65,000)	-	47,780,880
Net earnings			9,148,560			9,148,560
Issuance of common stock at $14.45 per share	8,410	121,525				121,525
Cash dividends, $.50 per share			(3,658,468)			(3,658,468)
Balances December 31, 1997	7,316,934	3,614,567	49,842,930	(65,000)	-	53,392,497
Net earnings			10,518,548			10,518,548
Deferred compensation		344,046			(344,046)	-
Deferred compensation amortization					114,102	114,102
Issuance of common stock at $24.25 per share in conjunction with RCA acquisition	200,000	4,850,000				4,850,000
Issuance of common stock at $14.60 per share	8,107	118,362				118,362
Cash dividends, $.50 per share			(3,762,521)			(3,762,521)
Balances December 31, 1998	7,525,041	$8,926,975	$56,598,957	$ (65,000)	$(229,944)	$65,230,988

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

CHURCHILL DOWNS INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 1998	1997	1996
Cash flows from operating activities:			
Net earnings	$10,518,548	$9,148,560	$8,071,526
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	5,743,932	4,558,761	4,814,114
Deferred income taxes	(121,000)	352,100	(461,000)
Deferred compensation	183,191	54,887	226,690
Increase (decrease) in cash resulting from changes in operating assets and liabilities:			
Accounts receivable	(2,972,985)	(2,053,211)	(2,943,932)
Other current assets	(292,994)	(152,868)	232,699
Accounts payable	(1,245,550)	329,783	(1,114,508)
Accrued expenses	(579,904)	(83,912)	4,710,605
Income taxes payable (refundable)	70,946	(2,323,866)	1,461,000
Deferred revenue	757,889	1,017,486	237,958
Other assets and liabilities	(1,245,808)	(377,523)	(109,037)
Net cash provided by operating activities	10,816,265	10,470,197	15,126,115
Cash flows from investing activities:			
Acquisition of business, net of cash acquired of $517,151	(17,232,849)	-	-
Additions to plant and equipment, net	(3,524,032)	(4,568,494)	(2,570,795)
Purchase of minority-owned investment	-	(2,337,500)	-
Net cash used in investing activities	(20,756,881)	(6,905,994)	(2,570,795)
Cash flows from financing activities:			
Decrease in long-term debt, net	(140,164)	(239,638)	(3,468,569)
Borrowings on bank line of credit	22,000,000		
Repayments of bank line of credit	(11,000,000)		
Dividends paid	(3,658,468)	(2,375,271)	(1,892,302)
Common stock issued	118,362	121,525	112,970
Common stock repurchased	-	-	(4,954,193)
Loan origination costs	(279,661)	-	-
Net cash provided by (used in) financing activities	7,040,069	(2,493,384)	(10,202,094)
Net increase (decrease) in cash and cash equivalents	(2,900,547)	1,070,819	2,353,226
Cash and cash equivalents, beginning of period	9,280,233	8,209,414	5,856,188
Cash and cash equivalents, end of period	$6,379,686	$9,280,233	$8,209,414
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 497,307	$151,397	$277,149
Income taxes	$ 7,129,540	$7,914,974	$3,970,000
Schedule of Non-cash Activities:			
Issuance of common stock related to the acquisition of RCA	$ 4,850,000	-	-
Invoicing for future Kentucky Derby and Oaks	$ 677,733	$ 402,328	$ 586,886
Plant & equipment additions included in accounts payable	$95,055	-	-
Compensation expense	$ 344,406	-	-

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

CHURCHILL DOWNS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies:

Basis of Presentation:

Churchill Downs Incorporated (the "Company") conducts Spring, Summer and Fall live race meetings for Thoroughbred horses and participates in intrastate and interstate simulcast wagering at its racetracks in Kentucky. In Indiana, the Company, through its subsidiary, Hoosier Park L.P. (Hoosier Park), conducts live Thoroughbred, Quarter Horse and Standardbred horse races and participates in interstate simulcast wagering. Both its Kentucky and Indiana operations are subject to regulation by the racing commissions of the respective states.

The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, Ellis Park Race Course (Ellis Park), Churchill Downs Management Company (CDMC), Churchill Downs Investment Company (CDIC), the Kentucky Horse Center and Anderson Park Inc. (Anderson) and its majority-owned subsidiary, Hoosier Park. All significant intercompany balances and transactions have been eliminated.

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

A Summary of Significant Accounting Policies Follows:

Cash Equivalents:

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

Plant and Equipment:

Plant and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets.

1. Basis of Presentation and Summary of Significant Accounting Policies: (cont'd)

Intangible Assets:

Amortization of the cost of acquisition in excess of fair value of assets acquired and the Indiana racing license is provided over 40 years using the straight-line method. Organizational costs were amortized using the straight-line method over 24 months to 60 months. Loan origination costs on the Company's line of credit are being amortized under the effective interest method over 36 months, the term of the loan.

Long-lived Assets:

In the event that facts and circumstances indicate that the carrying amount of tangible or intangible long-lived assets or groups of assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the assets would be compared to the assets' carrying amount to determine if a write-down to market value or discounted cash flow value is required.

Deferred Revenue:

Deferred revenue includes primarily advance sales related to the Kentucky Derby and Oaks races in Kentucky.

Stock-Based Compensation:

The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". In accordance with Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-based Compensation" proforma disclosure of net earnings and earnings per share are presented in Note 10 as if SFAS No. 123 had been applied.

Reclassification:

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

2. Acquisitions:

On April 21, 1998, the Company acquired from TVI Corp., ("TVI") all of the outstanding stock of Racing Corporation of America ("RCA") for a purchase price of $22.6 million, including transaction costs. RCA owns and operates Ellis Park Race Course in Henderson, Kentucky, and the Kentucky Horse Center, a training facility located in Lexington, Kentucky. The purchase price was paid as 200,000 shares of the Company's common stock valued at $4.9 million with the remainder paid in cash. The purchase price was allocated to the acquired assets and liabilities based on their fair values on the acquisition date with the excess of $6.4 being amortized over 40 years. The acquisition was accounted for by the Company under the purchase method of accounting and, accordingly, the results of operations of RCA subsequent to April 20, 1998, are included in the Company's consolidated results of operations.

Pursuant to the terms of the purchase agreement between the Company and TVI, if alternative gaming (whether full casino, slot machine or video lottery) is legalized in the Commonwealth of Kentucky by December 31, 2015, TVI will receive royalty payments equal to 50% of annual earnings before interest and taxes of the gaming operations at Ellis Park Race Course and at the Kentucky Horse Center. Should gaming be legalized before December 31, 2006, such royalties will be payable for ten years from the date that such gaming becomes fully operational. The royalty period will be reduced by one year for each year from 2006 through 2015 in which gaming is legalized.

Following are the unaudited pro forma results of operations as if the April 21, 1998 transaction had occurred on January 1, 1997 (in thousands, except per share and share amounts):

	1998	1997
Net revenues	$149,272	$137,316
Net earnings	$9,404	$8,845
Earnings per common share:		
Basic	$1.25	$1.18
Diluted	$1.24	$1.18
Weighted average shares outstanding:		
Basic	7,520,332	7,512,052
Diluted	7,599,756	7,520,670

2. Acquisitions: (cont'd)

This unaudited proforma financial information is not necessarily indicative of the operating results that would have occurred had the transaction been consummated as of January 1, 1997, nor is it necessarily indicative of future operating results.

In July 1997, the Company purchased a 24% interest in the Kentucky Downs racecourse in Franklin, Kentucky. The Company's investment of $2.2 million is accounted for under the equity method of accounting.

3. Plant and Equipment:

Plant and equipment is comprised of the following:

	1998	1997	1996
Land	$7,631,657	$5,999,036	$5,879,994
Grandstands and buildings	73,376,961	57,579,747	56,154,054
Equipment	4,979,383	3,416,306	2,936,129
Furniture and fixtures	5,341,119	4,327,797	3,603,276
Tracks and other improvements	37,997,696	33,118,100	31,377,753
Construction in process	249,438	113,210	74,206
	129,576,254	104,554,196	100,025,412
Accumulated depreciation	(46,488,050)	(41,391,429)	(37,143,223)
	$83,088,204	$63,162,767	$62,882,189

Depreciation expense was $5,490,450, $4,287,916, and $4,038,135 for the years ended December 31, 1998, 1997 and 1996.

4. Intangibles assets:

The Company's intangible assets are comprised of the following:

	1998	1997	1996
Cost of acquisition in excess of fair value of net assets acquired	$6,448,867	-	-
Indiana racing license	2,085,428	$2,085,428	$2,085,428
Loan origination costs	279,661	-	-
Organizational and preopening costs	-	-	932,738
	8,813,956	2,085,428	3,018,166
Accumulated amortization	(444,561)	(191,078)	(852,974)
	$8,369,395	$1,894,350	$2,165,192

4. Intangibles assets: (cont'd)

Amortization expense was $253,482, $270,845 and $775,979 for the years ended December 31, 1998, 1997 and 1996.

5. Income Taxes:

Components of the provision for income taxes are as follows:

	1998	1997	1996
Currently payable:			
Federal	$6,110,000	$4,616,800	$4,538,000
State & local	762,000	856,100	893,000
	6,872,000	5,472,900	5,431,000
Deferred:			
Federal	45,500	308,100	(382,000)
State & local	6,500	44,000	(79,000)
	52,000	352,100	(461,000)
Reversal of valuation allowance	(173,000)	-	-
	$6,751,000	$5,825,000	$4,970,000

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

	1998	1997	1996
Federal statutory tax on earnings before income tax	$5,942,000	$5,141,000	$4,464,000
State income taxes, net of federal income tax benefit	747,000	612,000	537,000
Permanent differences and other	235,000	72,000	(31,000)
Reversal of valuation allowance	(173,000)	-	-
	$6,751,000	$5,825,000	$4,970,000

At December 31, 1998, the Company has net operating loss carryforwards of approximately $3,885,000 for Indiana state income tax purposes expiring from 2009 through 2011 and approximately $8,786,000 for Kentucky state income tax purposes expiring from 2002 through 2011. Management has determined that its ability to realize future benefits of the state net operating loss carryforwards meets the "more likely than not" criteria of SFAS No. 109, "Accounting for Income Taxes"; therefore, no valuation allowance has been recorded at December 31, 1998.

5. Income Taxes: (cont'd)

Components of the Company's deferred tax assets and liabilities are as follows:

	1998	1997	1996
Deferred tax liabilities:			
Property & equipment in excess of tax basis	$7,804,600	$2,415,000	$2,284,000
Racing license in excess of tax basis	650,000	636,000	657,000
Deferred tax liabilities	8,454,600	3,051,000	2,941,000
Deferred tax assets:			
Supplemental benefit plan	315,400	295,000	273,000
State net operating loss carryforwards	856,700	173,000	176,000
Allowance for uncollectible receivables	87,100	71,000	66,000
Other assets	191,300	250,000	136,000
Other accruals	246,100	128,400	511,500
Deferred tax assets	1,696,600	917,400	1,162,500
Valuation allowance for state net operating loss carryforwards	-	173,000	176,000
Net deferred tax liability	$6,758,000	$2,306,600	$1,954,500

Income taxes are classified in the balance sheet as follows:

Net non-current deferred tax liability	$6,937,800	$2,377,100	$2,316,600
Net current deferred tax asset	(179,800)	(70,500)	(362,100)
	$6,758,000	$2,306,600	$1,954,500

6. Stockholders' Equity:

On March 19, 1998, the Company's Board of Directors authorized a 2-for-1 stock split of its common stock effective March 30, 1998. All share and per share amounts in the accompanying consolidated financial statements have been restated to give effect to the stock split.

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

7. Employee Benefit Plans:

The Company has a profit-sharing plan that covers all full-time employees with one year or more of service. The Company will match contributions made by the employee up to 2% of the employee's annual compensation and contribute a discretionary amount determined annually by the Board of Directors. The Company's contribution to the plan for the years ended December 31, 1998, 1997 and 1996 was $806,000, $535,000, and $402,000 respectively.

The Company is a member of a noncontributory defined benefit multi-employer retirement plan for all members of the Pari-mutuel Clerk's Union of Kentucky. Contributions are made in accordance with negotiated labor contracts. Retirement plan expense for the year ended December 31, 1998, 1997 and 1996 was $258,000, $205,000, and $183,000, respectively. The Company's policy is to fund this expense as accrued.

The estimated present value of future payments under a supplemental benefit plan is charged to expense over the period of active employment of the employees covered under the plan. Supplemental benefit plan expense for the years ended December 31, 1998, 1997 and 1996 was $55,200, $51,000, and $51,000 respectively.

8. Long-Term Debt:

On September 15, 1998, the Company obtained a $100 million line of credit, which expires in September 2001, through a syndicate of banks headed by its principal lender. The new credit facility replaces a $50 million line of credit obtained during the second quarter of 1998. The interest rate on borrowings is based upon LIBOR plus 50 to 112.5 additional basis points which is determined by certain Company financial ratios. There was $11.0 million outstanding on the line of credit at December 31, 1998, and no borrowings outstanding at December 31, 1997 and 1996 under previous lines of credit. Provisions contained in the line of credit agreement require the Company to maintain specified levels of net worth, a specific ratio of consolidated funded debt to consolidated earnings before interest, taxes, depreciation and amortization and a specific ratio of consolidated earnings before interest and taxes to the sum of consolidated interest expense and consolidated dividends.

The Company also has two non-interest bearing notes payable in the aggregate face amount of $900,000 relating to the purchase of an intrastate wagering license from the former owners of the Louisville Sports Spectrum property. Interest has been imputed at 8%. The balance of these notes net of unamortized discount was $196,000, $276,000, and $350,000 at December 31, 1998, 1997 and 1996, respectively. The notes require aggregate annual payments of $110,000.

On May 31, 1996, the Company entered into a Partnership Interest Purchase Agreement with Conseco, L.L.C. ("Conseco") for the sale of 10% of the Company's partnership interest in Hoosier Park to Conseco. The transaction also included assumption by Conseco of a loan to the Company of approximately $2,600,000, of which the balance is $2,395,092 at December 31, 1998. The loan requires interest of prime plus 2% (9.75% at December 31, 1998) payable monthly with principal due November 2004. The note is collateralized by 10% of the assets of Hoosier Park. Conseco had an option to purchase an additional 47% interest in Hoosier Park which expired unexercised on December 31, 1998.

Future aggregate maturities of long-term debt are as follows:

1999-	$ 127,000
2000-	126,000
2001-	11,008,000
2002-	9,000
2003-	-
Thereafter -	2,395,000
	$13,665,000

9. Operating Leases:

The Company has a long-term operating lease for the land in Anderson, Indiana on which its Hoosier Park facility is located, as well as operating leases for the Indianapolis off-track betting facility and certain totalisator and audio/visual and other equipment and services. The Anderson lease expires in 2003, with an option to extend the lease for three additional ten year terms. The Indianapolis lease expires in 2009, with an option to extend the lease for two additional five year terms. The leases include provisions for minimum lease payments as well as contingent lease payments based on handle or revenues. Total rent expense for all operating leases was $4,022,000, $3,803,000 and $3,465,000 for the years ended December 31, 1998, 1997 and 1996.

Future minimum operating lease payments are as follows:

	Minimum Lease Payment
1999	$ 725,604
2000	704,625
2001	556,214
2002	462,045
2003	372,840
Thereafter	1,694,301
	$4,515,629

10. Stock-Based Compensation Plans:

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

The Company is authorized to issue up to 300,000 shares and 400,000 shares of common stock (as adjusted for the stock split) under the 97 Plan and 93 Plan, respectively, pursuant to "Awards" granted in the form of incentive stock options (intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended) and non-qualified stock options. Awards may be granted to selected employees of the Company or any subsidiary.

10. Stock-Based Compensation Plans: (cont'd)

Employee Stock Options:

Both the 97 Plan and the 93 Plan provide that the exercise price of any incentive stock option may not be less than the fair market value of the common stock on the date of grant. The exercise price of any nonqualified stock option is not so limited by the plans. The Company granted stock options in 1998, 1997 and 1996. The stock options granted in those years have contractual terms of 10 years and varying vesting dates, ranging from one to three years following the date of grant. In accordance with APB 25, the Company has not recognized any compensation cost for these stock options.

A summary of the status of the Company's stock options as of December 31, 1998, 1997 and 1996 and the changes during the year ended on those dates is presented below:

	1998		1997		1996	
	# of Shares Underlying Options	Weighted Average Exercise Prices	# of Shares Underlying Options	Weighted Average Exercise Prices	# of Shares Underlying Options	Weighted Average Exercise Prices
Outstanding at beginning of the year	426,532	$19.45	337,000	$19.08	248,000	$22.34
Granted	51,766	$32.50	89,532	$20.83	274,400	$18.97
Exercised	-	-	-	-	-	-
Canceled	-	-	-	-	185,400	$23.27
Forfeited	-	-	-	-	-	-
Expired	-	-	-	-	-	-
Outstanding at end of year	478,298	$20.86	426,532	$19.45	337,000	$19.08
Exercisable at end of year	248,000	$21.02	207,400	$19.67	-	-
Weighted-average fair value per share of options granted during the year		$10.42		$6.34		$5.55

The fair value of each stock option granted is estimated on the date of grant using the Black- Scholes option-pricing model with the following weighted-average assumptions for grants in 1998, 1997 and 1996, respectively: dividend yields ranging from 1.20% to 1.54%; risk- free interest rates are different for each grant and range from 5.75% to 6.63%; and the expected lives of options are different for each grant and range from approximately 5.83 to 6.5 years,and expected volatility rates of 24.86%, 19.38% and 18.75% for years ending December 31, 1998, 1997 and 1996.

10. Stock-Based Compensation Plans: (cont'd)

The following table summarizes information about stock options outstanding at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/98	Weighted Average Remaining Contributing Life	Weighted Average Exercise Price	Number Exercisable at 12/31/98	Weighted Average Exercise Price
$15.75 to $19.25	315,900	6.05	$18.72	211,000	$20.89
$21.25 to $32.50	162,398	8.20	$25.02	37,000	$21.71
TOTAL	478,298	6.77	$20.86	248,000	$21.02

Employee Stock Purchase Plan:

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

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

Under the Employee Stock Purchase Plan, the Company sold 8,107 shares of common stock to 102 employees pursuant to options granted on August 1, 1997, and exercised on July 31, 1998. Because the plan year overlaps the Company's fiscal year, the number of shares to be sold pursuant to options granted on August 1, 1998, can only be estimated because the 1998 plan year is not yet complete. The Company's estimate of options granted in 1998 under the Plan is based on the number of shares sold to employees under the Plan for the 1997 plan year, adjusted to reflect the change in the number of employees participating in the Plan in 1998.

10. Stock-Based Compensation Plans: (cont'd)

A summary of the status of the Company's stock options under the Employee Stock Purchase Plan as of December 31, 1998, 1997 and 1996 and the changes during the year ended on those dates is presented below:

	1998		1997		1996	
	# of Shares Underlying Options	Weighted Average Exercise Prices	# of Shares Underlying Options	Weighted Average Exercise Prices	# of Shares Underlying Options	Weighted Average Exercise Prices
Outstanding at beginning of the year	8,030	$14.60	8,000	$14.45	7,818	$14.45
Adjustment to prior year estimated grants	77	$14.60	410	$14.45	-	-
Granted	5,238	$31.45	8,030	$18.94	8,000	$17.22
Exercised	8,107	$14.60	8,410	$14.95	7,818	$14.45
Forfeited	-	-	-	-	-	-
Expired	-	-	-	-	-	-
Outstanding at end of year	5,238	$31.45	8,030	$18.94	8,000	$17.22
Exercisable at end of year	-	-	-	-	-	-
Weighted-average Fair value per share of options granted during the year	$12.16		$5.36		$5.35	

10. Stock-Based Compensation Plans: (cont'd)

Had the compensation cost for the Company's stock-based compensation plans been determined consistent with SFAS 123, the Company's net earnings and earnings per common share for 1998, 1997 and 1996 would approximate the pro forma amounts presented below:

	1998	1997	1996
Net earnings:			
As reported	$10,518,548	$9,148,560	$8,071,526
Pro-forma	$10,086,914	$8,605,000	7,530,000
Earnings per common share:			
As reported			
Basic	$1.41	$1.25	$1.08
Diluted	$1.40	$1.25	$1.08
Pro-forma			
Basic	$1.35	$1.18	$1.01
Diluted	$1.34	$1.18	$1.01

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

11. Fair Values of Financial Instruments:

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

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

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

12. Contingencies:

On January 22, 1992, the Company acquired certain assets of Louisville Downs, Incorporated for $5,000,000 including the site of the Louisville Sports Spectrum. In conjunction with this purchase, the Company withheld $1,000,000 from the amount due to the sellers to offset certain costs related to the remediation of environmental contamination associated with underground storage tanks at the site. All of the $1,000,000 hold back had been utilized as of December 31, 1998 and additional costs of remediation have not yet been conclusively determined. The sellers have now received a reimbursement from the State of Kentucky of $995,000 for remediation costs and that amount is now being held in an escrow account to pay further costs of remediation. Approximately $985,000 remains in the account. In addition to the hold back, the Company has obtained an indemnity to cover the full cost of remediation from the prior owner of the property.

It is not anticipated that the Company will have any liability as a result of compliance with environmental laws with respect to any of the Company's property. Except as discussed herein, compliance with environmental laws has not affected the ability to develop and operate the Company's properties and the Company is not otherwise subject to any material compliance costs in connection with federal or state environmental laws.

13. Earnings Per Common Share Computations:

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

	1998	1997	1996
Net earnings (numerator) amounts used for basic and diluted per share computations:	$10,518,548	$9,148,560	$8,071,526
Weighted average shares (denominator) of common stock outstanding per share computations:			
Basic	7,460,058	7,312,052	7,445,542
Plus dilutive effect of stock options	79,424	8,618	2,164
Diluted	7,539,482	7,320,670	7,447,706
Earnings per common share:			
Basic	$1.41	$1.25	$1.08
Diluted	$1.40	$1.25	$1.08

Options to purchase 51,766, 9,800 and 135,250 shares for the years ended December 31, 1998, 1997 and 1996, 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.

14. Segment Information

In 1998 the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company has determined that it currently operates in the following four segments: (1) Churchill Downs racetrack and the Louisville Sports Spectrum simulcast facility, (2) Ellis Park racetrack and its on-site simulcast facility, (3) Hoosier Park racetrack and its on-site simulcast facility and the other three Indiana simulcast facilities and (4) Other operations.

Most of the Company's revenues are generated from commissions on pari-mutuel wagering at the Company's racetracks and simulcast wagering facilities, as well as simulcast fees, admissions and concessions revenue and other sources. Other operations includes the Kentucky Horse Center and the Company's investments in various other business enterprises. The Company's equity in the net income of equity method investees is not significant. Eliminations include the elimination of management fees and other intersegment transactions.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies." The Company evaluates the performance of its segments and allocates resources to them based on earnings before interest, taxes, depreciation and amortization ("EBITDA") and operating income.

14. Segment Information: (cont'd)

The table below presents information about reported segments for the years ending December 31, 1998, 1997 and 1996:

Segment Information (in thousands)

	Churchill Downs	Hoosier Park	Ellis Park	Other Operations	Elimina- tions	Total
Net revenues:						
1998	$80,925	$47,744	$17,386	$2,497	$(1,252)	$147,300
1997	77,404	41,503	-	1,299	(1,299)	118,907
1996	74,540	33,319	-	1,334	(1,334)	107,859
EBITDA:						
1998	$14,417	$5,599	$2,305	$909	-	$23,230
1997	14,205	4,282	-	802	-	19,289
1996	15,390	1,565	-	847	-	17,802
Operating income:						
1998	$10,700	$4,499	$1,422	$522	-	$17,143
1997	10,557	3,088	-	760	-	14,405
1996	11,482	6	-	827	-	12,315
Total assets:						
1998	$89,427	$31,732	$23,038	$71,109	$(100,655)	$114,651
1997	72,490	29,689	-	31,180	(47,510)	85,849
1996	71,047	28,626	-	26,062	(45,006)	80,729

Following is a reconciliation of total EBITDA to income before provision for income taxes:

(in thousands)	1998	1997	1996
Total EBITDA	$23,230	$19,289	$17,802
Depreciation and amortization	(5,744)	(4,559)	(4,814)
Interest income (expense)	(216)	243	53
Earnings before provision for income taxes	$17,270	$14,973	$13,041

15. Subsequent Events:

On January 13, 1999, the Company acquired a 60% interest in Charlson Broadcast Technologies, LLC ("CBT") for a purchase price of $5.4 million. CBT provides simulcast graphic software video services to racetracks and simulcast wagering facilities throughout the United States. The purchase agreement includes provisions for an additional contingent purchase price to be paid by the Company to the former owners of the 60% interest based upon the achievement of certain operating targets.

On January 21, 1999, the Company entered into an agreement to acquire all of the outstanding shares of Calder Race Course, Inc., and Tropical Park, Inc. ("Calder"), from KE Acquisition Corp., a private holding company. Terms of the agreement include a purchase price of $86 million subject to certain adjustments. Closing of the acquisition is expected in early April 1999.

Supplementary Financial Information (Unaudited)

	Net Revenues	Operating Income (Loss)	Net Earnings (Loss)	Basic Earnings (Loss)	Diluted Earnings (Loss)	Dividends	Market Price High	Market Price Low
				Common Stock Information Per Share of Common Stock				
1998	$147,300,299	$17,143,410	$10,518,548	$1.41	$1.40			
Fourth Quarter	31,241,540	(1,290,562)	(779,990)	(.10)	(.10)	$0.50	$36.44	$27.25
Third Quarter	33,299,256	(1,016,288)	(654,915)	(.09)	(.09)		41.44	27.63
Second Quarter	67,374,352	22,219,991	13,522,484	1.81	1.79		43.25	24.00
First Quarter	15,385,151	(2,769,731)	(1,569,031)	(.21)	(.21)		25.31	19.31
1997	$118,907,367	$14,405,288	$9,148,560	$1.25	$1.25			
Fourth Quarter	28,021,261	(269,688)	30,749	0.00	0.00	$0.50	$23.38	$20.75
Third Quarter	16,827,607	(3,005,270)	(1,819,209)	(0.25)	(0.25)		21.00	16.25
Second Quarter	60,779,635	20,815,669	12,785,706	1.75	1.75		19.00	16.50
First Quarter	13,278,864	(3,135,423)	(1,848,686)	(0.25)	(0.25)		18.50	16.00
1996	$107,858,818	$12,314,897	$ 8,071,526	$1.08	$1.08			
Fourth Quarter	26,369,324	(1,092,044)	(171,138)	(0.02)	(0.02)	$0.33	$18.25	$17.00
Third Quarter	15,200,752	(2,782,430)	(1,580,988)	(0.21)	(0.21)		18.75	17.00
Second Quarter	54,939,249	19,637,584	11,896,865	1.59	1.59		22.00	18.00
First Quarter	11,349,493	(3,448,213)	(2,073,213)	(0.27)	(0.27)		20.00	16.00

The Company's Common Stock is traded in the over-the-counter market. As of March 29, 1993, the Company's Common Stock was listed on the National Association of Securities Dealers, Inc.'s SmallCap Market under the symbol CHDN. As of March 24, 1999, there were approximately 3,100 stockholders of record.

Earnings (loss) per share and other per share amounts have been retroactively adjusted for the 2-for-1 stock split with a record date of March 30, 1998.

Quarterly earnings (loss) per share figures may not equal total earnings (loss) per share for the year due in part to the fluctuation of the market price of the stock.

The above table sets forth the high and low bid quotations (as reported by NASDAQ) and dividend payment information for the Company's Common Stock during its last three years. Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not necessarily reflect actual transactions.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required herein is incorporated by reference from sections of the Company's Proxy Statement titled "Section 16(a) Beneficial Ownership Reporting Compliance," "Election of Directors," and "Executive Officers of the Company," which Proxy Statement will be filed with the Securities and Exchange Commission pursuant to instruction G(3) of the General Instructions to Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION.

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

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

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

(b) Reports on Form 8-K:

(1) Report on Form 8-K - Description of Capital Stock, Item 5 Other Events, was filed on December 14, 1998

(2) Report on Form 8-K/ A-2, filing of accountant's consent, Item 7 Financial Statements and Exhibits, ws filed on December 21, 1998.

(c) Exhibits

See exhibit index.

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

SIGNATURES

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

CHURCHILL DOWNS INCORPORATED

/s/Thomas H. Meeker

Thomas H. Meeker
President and Chief Executive Officer
March 16, 1999

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

/s/Thomas H. Meeker	/s/Robert L. Decker	/s/Vicki. L. Baumgardner
Thomas H. Meeker, President and Chief Executive Officer March 16, 1999 (Director and Principal Executive Officer)	Robert L. Decker, Executive Vice President and Chief Officer March 16, 1999 (Principal Financial Officer)	Vicki L. Baumgardner, Vice President, Finance and Treasurer March 16, 1999 (Principal Accounting Officer)
/s/Daniel P. Harrington	/s/Frank B. Hower, Jr.	
Daniel P. Harrington March 16, 1999 (Director)	Frank B. Hower, Jr. March 16, 1999 (Director)	Arthur B. Modell March 16, 1999 (Director)
/s/William S. Farish	/s/G. Watts Humphrey, Jr.	/s/Carl F. Pollard
William S. Farish March 16, 1999 (Director)	G. Watts Humphrey, Jr. March 16, 1999 (Director)	Carl F. Pollard March 16, 1999 (Director)
/s/J. David Grissom	/s/W. Bruce Lunsford	/s/Dennis D. Swanson
J. David Grissom March 16, 1999 (Director)	W. Bruce Lunsford March 16, 1999 (Director)	Dennis D. Swanson March 16, 1999 (Director)
/s/Charles W. Bidwill, Jr.	/s/Seth W. Hancock	/s/Darrell R. Wells
Charles W. Bidwill, Jr. March 16, 1999 (Director)	Seth W. Hancock March 16, 1999 (Director)	Darrell R. Wells March 16, 1999 (Director)

CHURCHILL DOWNS INCORPORATED

SCHEDULE VIII. - VALUATION AND QUALIFYING ACCOUNTS

Description	Balance, Beginning of Period	Accounts obtained in Acquisition	Charged to Expenses	Deductions	Balance, End of Period
Year ended December 31, 1998:					
Allowance for doubtful account and notes receivable	$176,000	$98,000	$1,000	$(56,000)	$219,000
Valuation allowance for deferred tax asset	173,000	-	(173,000)	-	-
	$349,000	$98,000	$(172,000)	(56,000)	$219,000
Year ended December 31, 1997:					
Allowance for doubtful account and notes receivable	$165,000	-	$61,000	$(50,000)	$176,000
Valuation allowance for deferred tax asset	176,000	-	-	(3,000)	173,000
	$341,000	-	$61,000	$(53,000)	$349,000
Year ended December 31, 1996:					
Allowance for doubtful account and notes receivable	$135,000	-	$30,000	-	$165,000
Valuation allowance for deferred tax asset	104,000	-	72,000	-	176,000
	$239,000	-	$102,000	-	$341,000

EXHIBIT INDEX

Numbers	Description	By Reference To
(2) (a)	Stock Purchase Agreement dated as of March 28, 1998 between Churchill Downs Incorporated and TVI Corp.	Exhibit 2.1 to Current Report on Form 8-K dated April 21, 1998
(b)	Agreement and Plan of Merger dated as of April 17, 1998 by and among TVI Corp., Racing Corporation of America, Churchill Downs Incorporated and RCA Acquisition Company	Exhibit 2.2 to Current Report on Form 8-K dated April 21, 1998
(3) (a)	Amended and Restated Articles of Churchill Downs Incorporatiod	Report on Form 10-Q for the fiscal quarter ended June 30, 1998
(b)	Restated Bylaws as amended	Report on Form 10-Q for the fiscal quarter ended June 30, 1998
(4)	Rights Agreement dated as of March 19, 1998 between Churchill Downs, Inc. and Bank of Louisville	Exhibit 4.1 to Current Report on Form 8-K dated March 19, 1998
(10)(a)	Churchill Downs Incorporated Amended and Supplemental Benefit Plan dated December 1, 1998*	Pages 61 to 71, Report on Form 10-K the year ended December 31, 1998
(b)	Employment Agreement dated as of October 1, 1984, with Thomas H. Meeker, President *	Exhibit 19(a) to Report on Form 10-Q for fiscal quarter ended 4 October 31, 198
(c)	Churchill Downs Incorporated for Incentive Compensation Plan (1997)*	Exhibit 10 (c) to Report on Form 10-K for the year ended December 31, 1996
(d)	Churchill Downs Incorporated for 1993 Stock Option Plan *	Exhibit 10(h) to Report on Form 10-K for the eleven months ended December 31, 1993
(e)	Stock Purchase Agreement naming Dominick Marotta, Frank Marotta, Louis E. Carlo and Edward F. Draugelis	Exhibit 10(i) to Current Report on Form 8-K filed with the Securities and Exchange Commission on February 10, 1994
(f)	Amendment of Employment Agreement with Thomas H. Meeker, President, dated October 1, 1984 *	Report on Form 10-K for the fiscal year ended January 31, 1986; Report on Form 10-K for the fiscal year ended January 31, 1987; 1988, 1990, 1991, 1992 and 1993
(g)	Amendment No. 1 to Churchill Downs Incorporated 1993 Stock Option Plan*	Exhibit 10 (g) to Report on Form 10-K for the year ended December 31, 1994

(h)	$100 Million Revolving Facility Credit Agreement between Churchill Downs Incorporated, Churchill Downs Management Company, Churchill Downs Investmwnt Company, Racing Coporation of America, Ellis Park Race Course, Inc., the banks party thereto and PNC Bank, National Association, as Agent, dated as of September 15, 1998	Report on Form 10-Q for the fiscal quarter ended September 30, 1998
(i)	Amended and Restated Lease Agreement dated January 31, 1996	Exhibit 10 (l) to Report on Form 10-K for the year ended December 31, 1995
(j)	Partnership Interest Purchase Agreement dated December 20, 1995 among Anderson Park, Inc., Conseco HPLP, LLC, Pegasus Group, Inc. and Hoosier Park, L.P.	Exhibit 10(k) to Report on Form 10-K for the year ended December 31, 1995
(k)	Employment Agreement between Churchill Downs Incorporated and Robert L. Decker *	Exhibit 10 (l) to Report on Form 10-Q for the fiscal quarter ended March 31, 1997
(l)	Amendment No. 2 to Churchill Downs Incorporated 1993 Stock Option Plan*	Report on Form 10-K for the year ended December 31, 1997
(m)	Churchill Downs Incorporated 1997 Stock Option Plan*	Report on Form 10-K for the year ended December 31, 1997
(n)	Churchill Downs Incorporated Amended and Restated Deferred Compensation Plan for Employees and Directors*	Pages 72 to 88, Report on Form 10-K for the year ended December 31, 1998
(21)	Subsidiaries of the registrant	Report on Form 10-K for the year ended December 31, 1994

(23)	Consent of PricewaterhouseCoopers, LLP Independent Accountants	Page 89, Report on Form 10-K for the year ended December 31, 1998
(27)	Financial Data Schedule for the year ended December 31, 1998	Page 90, Report on Form 10-K for the year ended December 31, 1998

*Management contract or compensatory plan or arrangement.

CHURCHILL DOWNS INCORPORATED
AMENDED AND RESTATED
SUPPLEMENTAL BENEFIT PLAN

This Amended and Restated Supplemental Benefit Plan replaces in its entirety, as of April 1, 1999, the Churchill Downs Supplemental Benefit Plan dated as of December, 1998.

Churchill Downs Incorporated ("Churchill Downs") desires to retain the services of and provide rewards and incentives to members of a select group of management employees who contribute to the success of the Corporation.

In order to achieve this objective, Churchill Downs has adopted the following Supplemental Benefit Plan to provide supplemental death, disability, and retirement benefits for those select management employees who become Members of the Plan.

ARTICLE 1

TITLE AND EFFECTIVE DATE

1.1 This Plan Shall be known as the Churchill Downs Supplemental Benefit Plan (hereinafter referred to as the "Plan").

1.2 The Effective Date of this Plan shall be December 1, 1998.

ARTICLE 2

DEFINITIONS

As used herein, the following words and phrases shall have the meanings specified below unless a different meaning is clearly required by the context:

2.1 The term "Average Monthly Earnings" shall mean the Member's highest monthly base salary (regardless of whether paid in that month or deferred under the terms of a deferred compensation plan) determined at any time prior to death, disability, or retirement, plus 1/12th of the Member's highest incentive compensation award earned in any year prior to death, disability, or retirement pursuant to the Churchill Downs Incorporated Incentive Compensation Plan or similar plan maintained by the Employer. It shall not include compensation earned pursuant to any stock option plan or any other form of compensation earned by the Member.

2.2 The term "Board of Directors" shall mean the Board of Directors of the Employer.

2.3 The term "Committee" shall mean the Compensation Committee or other Committee appointed by the Board of Directors to administer the plan.

2.4 The term "Death Benefit" shall mean the benefit paid to a Member's Surviving Spouse as provided in Article 6.

2.5 The term "Disability Benefit" shall mean the benefit paid to a Disabled Member as provided in Article 5.

2.6 The term "Disabled Member" shall mean any Member who is Totally and Permanently Disabled. If a Member fails to qualify for disability benefits under the Employer's Long Term Disability Plan, the Board of Directors may, in its sole discretion, pay a Disability Benefit to a Member.

2.7 The term "Effective Date" shall mean the date the Plan becomes effective through the terms of a resolution adopted by the Board of Directors.

2.8 The term "Employer" shall mean Churchill Downs, its successors and assigns, any subsidiary or affiliated organizations authorized by the Board of Directors of Churchill Downs to participate in this Plan with respect to their Members, and subject to the provisions of Article 9, any organization into which the Employer may be merged or consolidated or to which all or substantially all of its assets may be transferred.

2.9 The term "Member" shall mean an employee who is part of a select group of management or highly compensated personnel and has become a Member as provided in Article 3 hereof.

2.10 The term "Monthly Retirement Income" shall mean a monthly income due a Retired Member under the terms of this Plan which shall commence as of his Retirement Date and continue for the period provided herein.

2.11 The term "Plan" shall mean the Churchill Downs Supplemental Benefit Plan.

2.12 The term "Plan Agreement" shall mean the written agreement entered into by a Member and the Employer evidencing the Member's participation in the Plan.

2.13 The term "Primary Social Security" shall mean the estimated Primary Insurance Amount (payable monthly) available to a Member at the later of the Member's Retirement Date or attainment of age 62 under the Social Security Act in effect at the Member's Retirement Date. The fact that a Member does not receive such amount shall be disregarded in computing Monthly Retirement Income benefits herein.

2.14 The term "Qualified Plan" shall mean the Churchill Downs Pension Plan.

2.15 The term "Retired Member" shall mean any member of the Plan who has qualified for retirement and has retired, and who is eligible to receive a Monthly Retirement Income by direction of the Committee.

2.16 The term "Retirement Date" shall mean the first day of the month coinciding with or immediately following the Member's termination of employment on or after attainment of age fifty-five (55).

2.17 The term "Surviving Spouse" shall mean the person legally married to a Member at the time of the death of the Member.

2.18 The term "Total and Permanent Disability" or "Totally and Permanently Disabled" shall mean eligibility for disability benefits under the terms of the Employer's Long Term Disability plan in effect at the time the Member becomes disabled.

2.19 For purposes of converting the amounts described in Sections 4.1D and 5.1C to an annuity, such conversion shall be computed using an interest rate assumption equal to the yield of a U.S. Treasury Bond with a term equal to the Member's life expectancy (rounded to the nearest whole year), such yield and life expectancy to be determined as of the last day of the calendar quarter preceding the Member's Retirement Date or, in the event the Member becomes Totally and Permanently Disabled prior to the attainment of age 55, as of the last day of the calendar quarter preceding the date the Member attains age 55. For purposes of determining the Member's life expectancy, the GAM 94 mortality table shall be used.

ARTICLE 3

MEMBERSHIP IN THE PLAN

3.1 Eligibility for membership in this Plan shall be determined by the Committee in its sole discretion, on an individual basis. However, a Member whose benefits under the Plan have commenced to be paid shall not be removed from membership in the Plan unless the Member is convicted of a felonious act against the Employer.

3.2 If a Member is removed from the Plan under Section 3.1, all future benefits payable under this Plan to the Member shall cease.

3.3 The payment of benefits to the Member under this Plan is conditioned upon the continuous employment of the Member by the Employer (including periods of disability and authorized leaves of absence) from the date of the Member's participation in the Plan until the Member's Retirement Date or Disability, whichever first occurs.

ARTICLE 4

MONTHLY RETIREMENT INCOME AND BENEFIT

4.1 The amount of a Member's Monthly Retirement Income shall be forty-five percent (45%) of his Average Monthly Earnings increased by one percent for each twelve month period that the Member remains employed by the Employer following attainment of age 55 with the maximum Monthly Retirement Income not to exceed fifty-five percent (55%) of his Average Monthly Earnings, reduced as set forth in Sections 4.1A, 4.1B, 41.C and 4.1D.

A. One hundred percent (100%) of the Member's Primary Social Security benefit under the Social Security law in effect on his Retirement Date, such amount not being applied to reduce the amount set forth in Section 4.01 hereof until the later of the Member's Retirement Date or attainment of age 62. If the Member's Retirement Date occurs on or after the attainment of age 59, the reduction shall be 50% rather than 100%.

B. One hundred percent (100%) of the Member's monthly income calculated in the form of a 50% Joint & Survivor annuity under the Qualified Plan formerly maintained by the Employer as of his Retirement Date, the specific amount of which is more specifically set out in the Member's Plan Agreement.

C. One hundred percent (100%) of the Monthly Income Option calculated as a 50% Joint & Survivor annuity from the cash surrender value of all life insurance policies (if applicable) listed on Schedule A attached to the Member's Plan Agreement. Such Monthly Income shall be determined as of the Member's Retirement Date. If the Member's Retirement Date occurs on or after the attainment of age 59, this reduction shall be eliminated.

D. One hundred percent (100%) of the Employer contributions and any Member contributions up to a maximum of two thousand ($2,000) per year allocated to his accounts under the Churchill Downs Incorporated Profit Sharing Plan, calculated in the form of a 50% Joint & Survivor annuity payable on his Retirement Date. If the Member's Retirement Date occurs on or after the attainment of age 59, the reduction for Member contributions shall be eliminated.

4.2 The basic form of Monthly Retirement Income (to which the formula indicated in Section 4.1 applies) shall be a monthly income commencing on the Member's Retirement Date and continuing for his life, with 50% of said benefit being paid for the life of a Surviving Spouse. This benefit shall not be actuarially reduced unless the Member's Retirement Date occurs prior to age 57.

4.3 A Member is entitled to receive a Monthly Retirement Income under the Plan only by remaining in the employ of the Employer until age fifty-five (55).

4.4 A Member may elect for the Member and/or the Member's Surviving Spouse to continue to participate in the Employer's group health insurance plan following Retirement or Disability. In the case of death under Article 6, the Member's Surviving Spouse may make such an election. The Member, or Member's Surviving Spouse, in the case of the Member's death, shall be responsible for all expenses (including applicable premiums) associated with such election

ARTICLE 5

DISABILITY BENEFITS

5.1 If a Member is determined to be Disabled while employed by the Employer prior to his attainment of age fifty-five (55), the Disabled Member shall be entitled to receive a Monthly Retirement Income benefit, commencing on the first day of the month coincident with or immediately following the attainment of age fifty-five (55), equal to forty-five percent (45%) of the Member's Average Monthly Earnings reduced by Sections 5.1A, 5.1B, and 5.1C.

A. One hundred percent (100%) of his monthly Long Term Disability benefit or, in the event there is no Long Term Disability benefit, one hundred percent (100%) of the Primary Social Security Disability benefit payable to the Member at age sixty-five (65) under the Social Security law in effect at that time. This offset shall occur without regard to whether the Member actually receives said benefits.

B. One hundred percent (100%) of his monthly income calculated in the form of a 50% Joint & Survivor annuity under the Qualified Plan as of the date Disability Benefits commence.

C. One hundred percent (100%) of the Employer contributions allocated to his account(s) under the Churchill Downs Incorporated Profit Sharing Plan, calculated in the form of a 50% Joint & Survivor annuity payable on the date Disability Benefits commence.

5.2 If a Member becomes Disabled on or after attaining age 55, the Member shall be treated as having elected Retirement at the time the Disability is determined.

ARTICLE 6

DEATH BENEFITS

6.1 If a Member dies after attaining age 55 but prior to Retirement, the Member's Surviving Spouse shall be entitled to a benefit as if the Member had elected to retire on the day before the Member's death.

6.2 The Surviving Spouse of a Retired Member shall be entitled to a benefit under the terms of 4.2 herein.

ARTICLE 7

PLAN ADMINISTRATION

7.1 The Board of Directors shall appoint a committee to administer the Plan and keep records of individual Member benefits.

7.2 The Committee shall have the authority to interpret the Plan, to adopt and review rules relating to the Plan and to make any other determinations for the administration of the Plan.

Subject to the terms of the Plan, the Committee shall have exclusive jurisdiction (i) to select the Members eligible to become Members, (ii) to determine the eligibility for, and form and method of any benefit payments, (iii) to establish the timing of benefit distributions, (iv) to settle claims according to the provisions in Article 8, and (v) to remove Members from participation in the Plan.

7.3 The Committee may employ such counsel, accountants, actuaries, and other agents as it shall deem advisable. The Employer shall pay the compensation of such counsel, accountants, actuaries, and other agents and any other expenses incurred by the Committee in the administration of the Plan.

ARTICLE 8

CLAIMS PROCEDURE

8.1 The Treasurer of the Employer shall administer the claims procedure under this Plan.

A. The business address and telephone number of the Treasurer of the Employer is:

Vicki L. Baumgardner
700 Central Avenue
Louisville, Kentucky 40208
(502) 636-4400

B. The Employer shall have the right to change the address and telephone number of the Treasurer. The Employer shall give the Member written notice of any change of the Treasurer, or any change in the address and telephone number of the Treasurer.

8.2 Benefits shall be paid in accordance with the provisions of this Plan. The Member (hereinafter referred to as the "Claimant") shall make a written request for the benefits provided under this Plan. This written claim shall be mailed or delivered to the Treasurer.

8.3 If the claim is denied, either wholly or partially, notice of the decision shall be mailed to the Claimant within a reasonable time period. This time period shall not exceed more than 90 days after the receipt of the claim by the Treasurer.

8.4 The Treasurer shall provide such written notice to every Claimant who is denied a claim for benefits under this Plan. The notice shall set forth the following information:

A. the specific reasons for the denial;

B. the specific reference to pertinent plan provisions on which the denial is based;

C. a description of any additional material or information necessary for the Claimant to perfect the claim and an explanation of why such material or information is necessary; and

D. appropriate information and explanation of the claims procedure under this Plan to permit the Claimant to submit his claim for review.

8.5 The claims procedure under the Plan shall allow the Claimant a reasonable opportunity to appeal a denied claim and to get a full and fair review of that decision from the Board.

A. The Claimant shall exercise his right of appeal by submitting a written request for review of the denied claim to the Treasurer. This written request for review must be submitted to the Treasurer within sixty (60) days after receipt of by the Claimant of the written notice of denial.

B. The Claimant shall have the following rights under this appeal procedure:

(1) to request a review by the Committee upon written application to the Treasurer;

(2) to review pertinent documents with regard to the employee benefit plan created under this Plan;

(3) the right to submit issues and comments in writing;

(4) to request an extension of time to make a written submission of issues and comments; and

(5) to request that a hearing be held to consider Claimant's appeal.

8.6 The decision on the review of the denied claim shall promptly be provided by the Committee:

A. within forty-five (45) days after the receipt of the request for review if no hearing is held; or

B. within ninety (90) days after the receipt of the request for review, if an extension of time is necessary in order to hold a hearing.

(1) If an extension of time is necessary in order to hold a hearing, the Committee shall give the Claimant written notice of the extension of time and of the hearing. This notice shall be given prior to any extension.

(2) The written notice of extension shall indicate that an extension of time will occur to hold a hearing on Claimant's appeal. The notice shall also specify the place, date, and time of that hearing and the Claimant's opportunity to participate in the hearing. It may also include any other information the Committee believes may be important or useful to the Claimant in connection with the appeal.

8.7 The decision to hold a hearing to consider the Claimant's appeal of the denied claim shall be within the sole discretion of the Committee, whether or not the Claimant requests such a hearing.

8.8 The Committee's decision on review shall be made in writing and provided to the Claimant within the specified time periods. This written decision on review shall contain the following information:

A. the decision(s);

B. the reasons for the decision(s); and

C. specific reference to the Plan provisions of the Plan on which the decision(s) is/are based.

All of this information shall be written in a manner calculated to be understood by the claimant.

ARTICLE 9

MISCELLANEOUS

9.1 Nothing contained in this Plan shall be deemed to give any Member or Employee the right to be retained in the service of the Employer or to interfere with the right of the Employer to discharge any Member or Employee at any time regardless of the effect which such discharge shall have upon him as a Member of the Plan.

9.2 Nothing contained in this Plan and no action taken pursuant to the provisions of this Plan shall create or be construed to create a trust of any kind or a fiduciary relationship between the Employer and the Member, his spouse or any other person. Any funds which may be invested by the Employer to insure itself against any and all financial losses which the Employer may incur under the provisions of this Plan shall continue for all purposes to be a part of the general funds of the Employer, and no person other than the Employer, shall, by virtue of the provisions of this Plan, have any interest in such funds. To the extent that any person acquires a right to receive payment from the Employer under this Plan, such right shall be no greater than the right of any general unsecured creditor of the Employer.

9.3 This Plan does not involve a reduction in salary for the Members or a foregoing of an increase in future salary by the Member.

9.4 A retired Member shall not be considered an Employee for any purpose under the law.

9.5 Except insofar as this provision may be contrary to applicable law, no sale, transfer, alienation, assignment, pledge, collateralization, or attachment of any benefits under this Plan shall be valid or recognized by the Committee.

9.6 The Employer reserves the right at any time and from time to time, by action of its Board of Directors to terminate, modify or amend, in whole or in part, any or all of the provisions of the Plan, including specifically the right to make any such amendments effective retroactively; provided that no such action shall reduce the benefits of any Disabled or Retired Member who is receiving a Monthly Retirement Income at the time of the termination, modification or amendment.

9.7 The Employer shall not merge into, be acquired by, or consolidate with any other Employer unless and until such other Employer agrees to assume all rights and obligations set forth in this Plan.

9.8 This Plan shall be binding upon and inure to the benefits of the Employer, its successors and assigns and each Member and his legal representatives.

9.9 This Plan shall be governed by the laws of Kentucky. This Plan is solely between the Employer and the Member. The Member shall only have recourse against the Employer for enforcement of the Plan.

9.10 Any words herein used in the masculine shall be read and construed in the feminine where they would so apply. Words in the singular shall be read and construed as though used in the plural in all cases where they would so apply.

CERTIFICATE

I, Rebecca C. Reed, Secretary to Churchill Downs Incorporated, do hereby certify that the foregoing Amended and Restated Churchill Downs Supplemental Benefit Plan sets forth in its entirety and replaces, as of April 1, 1999, the Churchill Downs Supplemental Benefit Plan dated as of December 1, 1998.

/s/ Rebecca C. Reed

Rebecca C. Reed

THE CHURCHILL DOWNS INCORPORATED
AMENDED AND RESTATED
DEFERRED COMPENSATION PLAN
FOR EMPLOYEES AND DIRECTORS

April 1, 1999

ARTICLE I

PURPOSE AND EFFECTIVE DATE

1.01 Title. This Plan shall be known as the Churchill Downs Incorporated Amended and Restated Deferred Compensation Plan for Employees and Directors (hereinafter referred to as the "Plan").

1.02 Purpose. The purpose of the Plan is to permit certain members of management or highly compensated employees and Directors of the Company to defer income pre-tax without regard to the limits imposed by the Internal Revenue Code on tax-qualified savings and retirement plans. The Plan constitutes an unfunded "top hat" arrangement under Title I of ERISA as well as for income tax purposes.

1.03 Effective Date. The effective date of this Plan shall be April 1, 1999.

ARTICLE II

DEFINITIONS AND CONSTRUCTION OF THE PLAN DOCUMENT

2.01 Annual Deferral Amount. "Annual Deferral Amount" shall mean that portion of a Participant's income to be paid during a Plan Year that a Participant elects to have and is deferred in a Plan Year. In the event of a Participant's Termination of Service prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount deferred and withheld prior to such event.

2.02 Beneficiary. "Beneficiary" shall mean the person or persons or the estate of a Participant entitled to receive any benefits under this Plan in the event of the Participant's death.

2.03 Board. "Board" shall mean the Board of Directors of the Company.

2.04 Bookkeeping Account Balance. "Bookkeeping Account Balance" shall mean with respect to a Participant the sum of (i) Deferred Compensation, plus (ii) Company Contributions, plus (iii) interest credited in accordance with all the applicable interest crediting provisions of this Plan, less (iv) all distributions. This account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant pursuant to this Plan.

2.05 Code. "Code" shall mean the Internal Revenue Code of 1986, as may be amended from time to time.

2.06 Committee. "Committee" means the Compensation Committee of the Board of Directors.

2.07 Company. "Company" shall mean Churchill Downs Incorporated and any subsidiary or affiliated companies that adopt the Plan, with the Company's approval.

2.08 Company Contribution. "Company Contribution" shall mean the amounts credited to the Participant's Bookkeeping Account Balance under Section 4.02 of the Plan.

2.09 Crediting Rate. "Crediting Rate" shall mean, starting January 1, 1999 and for each month thereafter, an interest rate equal to the Prime Rate listed in the Money Rates section of The Wall Street Journal on the first business day of the applicable month, plus 100 basis points.

2.10 Deferred Compensation. "Deferred Compensation" shall mean the sum of all of a Participant's Annual Deferral Amounts.

2.11 Director. "Director shall mean a member of the Board of Directors of the Company.

2.12 Director Compensation. "Director Compensation" shall mean the retainer and meeting fees paid by the Company to Directors.

2.13 Disabled. "Disabled" shall mean for an Employee Total and Permanent Disability under the terms of the Company's long-term disability plan in effect at the time of such determination of Disability.

2.14 Election Date. "Election Date" shall mean the date established by the Committee as the date before which an Employee or Director must submit a valid Election Form to the Plan Administrator. The applicable Election Dates can be no later than the following: (a) 30 days after adoption of the Plan for Employees and Directors who are eligible to participate at the time the Plan is adopted, (b) 30 days after a newly eligible Employee or Director is notified of the right to participate in the Plan, or (c) December 15 prior to an applicable Plan Year if (a) or (b) above do not apply.

2.15 Election Form. "Election Form" shall mean the form established from time to time by the Committee that an Employee or Director completes, signs and returns to the Plan Administrator to make an election under the Plan.

2.16 Employee. "Employee" shall mean any member of management or highly compensated employee who is eligible to participate in the Plan.

2.17 Employee Compensation. "Compensation" shall have the same meaning as provided in the Qualified Plan (without regard to any limitations imposed by the Code and without regard to any deferrals made under the terms of this Plan).

2.18 Participant. "Participant" shall mean an Employee or Director who has Deferred Compensation pursuant to the terms of this Plan, and whose Bookkeeping Account balance has not yet been fully distributed.

2.19 Plan. "Plan" shall mean the Churchill Downs Incorporated Deferred Compensation Plan for Employees and Directors as described in this instrument and as amended from time to time.

2.20 Plan Administrator. "Plan Administrator" shall mean the Vice President of Human Resources of the Company.

2.21 Plan Year. "Plan Year" shall mean a calendar year.

2.22 Qualified Plan. "Qualified Plan" shall mean the Churchill Downs Incorporated Profit Sharing Plan as in effect at the date of the adoption of this Plan and as amended from time to time.

2.23 Termination of Service. "Termination of Service" or similar expression shall mean the termination of the Participant's employment as an employee of the Company (and any division, subsidiary or affiliate thereof) or, if applicable, termination of service as a Director. A Disabled Participant shall be deemed to have terminated employment for purposes of this Plan.

2.24 Unforeseeable Financial Emergency. "Unforeseeable Financial Emergency" shall mean an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, (ii) a loss of the Participant's property due to casualty, or (iii) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.

2.25 Valuation Date. "Valuation Date" shall mean the last day of each month.

2.26 Gender and Number. Wherever the context so requires, masculine pronouns include the feminine and singular words shall include the plural.

2.27 Titles. Titles of the Articles of this Plan are included for ease of reference only and are not to be used for the purpose of construing any portion or provision of this Plan document.

ARTICLE III

ELIGIBILITY AND PARTICIPATION

3.01 Eligibility. The Committee shall determine in its sole discretion, which Employees shall be eligible to participate in the Plan. All Directors shall be eligible for participation.

3.02 Participation. An Employee or Director, after having been selected for participation by the Committee, shall, as a condition to participation, complete and return to the Plan Administrator a duly executed Election Form no later than the applicable Election Date. A Bookkeeping Account will be established for each Participant at the time an Election Form is received by the Plan Administrator.

ARTICLE IV

PARTICIPANT DEFERRALS OF COMPENSATION AND COMPANY MATCHING CONTRIBUTIONS

4.01 Employee Compensation. Each Employee who participates in the Plan may have a percentage of Employee Compensation deferred in accordance with the terms and conditions of this Plan. The percentage to be deferred each pay period under this section shall be any whole percentage from 1% to 15% of Employee Compensation, offset by amounts actually deferred in the applicable pay period to the Company's Qualified Plan.

4.02 Company Contribution. With respect to amounts contributed under Section 4.01, the Company shall add an amount equal to the excess, if any, of 4.02(a) over 4.02(b) as follows:

4.02(a) The amount equal to the matching contribution the Company would make to the Qualified Plan based on the Participant's Compensation for such pay period if the Participant made a contribution to the Qualified Plan in the amount of (1) the contributions under Section 4.01 above, plus (2) the actual contributions to the Qualified Plan for that pay period.

4.02(b) The amount equal to the Company's actual matching contribution to the Qualified Plan for such pay period.

4.03 Employee Annual Incentive Awards. Each Employee who participates in the Plan may have up to 100% of his annual incentive award deferred in accordance with the terms and conditions of this Plan. There shall be no Company Contribution with respect to the deferral of annual incentive awards.

4.04 Director Compensation. Each Director who participates in the Plan may have up to 100% of his Compensation deferred under the terms and conditions of this plan. There shall be no Company Contributions with respect to the deferral of Director Compensation.

4.05 Vesting. A Participant shall be fully vested at all times in his or her Deferred Compensation plus interest thereon. Vesting in Company Contributions plus interest thereon shall occur at the same time and at the same rate as vesting occurs for Company matching contributions to the Qualified Plan.

4.06 Duration of Election Form. A Participant's Election Form shall remain in effect until modified or terminated as provided in Section 4.07. Future deferrals will be terminated automatically for any Participant who is deemed (by the Committee) to no longer be eligible for participation in the Plan.

4.07 Election to Modify or Terminate Future Contributions. A Participant who desires to modify or terminate the amount of future Compensation being deferred under the Plan must notify the Plan Administrator in writing on an Election Form provided by the Plan Administrator. Elections to decrease or terminate deferrals of future Compensation shall become effective as soon as administratively possible. Elections to increase deferrals of future Compensation shall become effective on January 1 of the next Plan Year.

4.08 Rollover Contributions. A Participant may request a roll over to the Plan contributions previously made by, or on behalf of, the Participant to another deferred compensation plan which qualified as an unfunded "top hat" arrangement under Title I of ERISA as well as for income tax purposes. The Compensation Committee, in its sole discretion, may elect to accept such roll over amounts from other deferred compensation plans.

ARTICLE V

DEFERRAL ACCOUNT AND CREDITING RATE

5.01 Bookkeeping Account. Compensation deferred by a Participant under Sections 4.01, 4.03, and 4.04 herein and Company Contributions under Section 4.02 shall be credited to a Bookkeeping Account maintained for each Participant. Distributions pursuant to Articles VI and VII shall be debited against the Participant's Bookkeeping Account.

5.02 Interest. Prior to any distribution of a Participant's Bookkeeping Account Balance under Article VI herein, an amount equal to the Crediting Rate shall be credited and compounded monthly to a Participant's Bookkeeping Account Balance on each Valuation Date. For purposes of this paragraph, a Participant's Annual Deferral Amount and Company Contributions will be treated as though they were made in two installments: (a) half at the beginning of the applicable month, and (b) half at the end of the applicable month. Subsequent to the commencement of installment distributions under Article VI herein, the interest credited to a Participant's Bookkeeping Account Balance shall be equal to the average (mean) crediting rate for the 12 months immediately prior to the Participant's first distribution hereunder.

ARTICLE VI

DISTRIBUTION

6.01 Distribution of Bookkeeping Account Balance. Distribution of the value of a Participant's Bookkeeping Account Balance shall be in a lump sum or in 60 equal monthly installments as specified on the Participant's Election Form. If a payment form is not specified on an Election Form, a Participant's Bookkeeping Account Balance shall be distributed as a lump sum. The selection of a lump sum or installment payments must be made on a Participant's initial Election Form and cannot be changed for future contributions and earnings thereon.

6.02 Form of Distribution. All distributions of a Participant's Bookkeeping Account shall be made in cash only.

6.03 Timing of Distribution. Distributions shall commence, or be paid in a lump sum if so elected, as soon as administratively feasible after the earlier of the date indicated on the Participant's Deferral Election Form or the Participant's Termination of Service.

6.04 Death Prior to Distribution. In the event of a Participant's death prior to the commencement of any distribution of payments hereunder, an amount equal to the Participant's Bookkeeping Account Balance shall be paid to the Participant's Beneficiary in a lump sum within 90 days after the Participant's death.

6.05 Death of a Participant Subsequent to Commencement of Installment Payments. In the event of the death of a Participant subsequent to commencement of installment payments hereunder but prior to completion of such payments, the installments shall continue and shall be paid to the designated Beneficiary as if the Participant had survived.

ARTICLE VII

UNFORESEEABLE FINANCIAL EMERGENCY

7.01 Unforeseeable Financial Emergency. At the request of a Participant or at the request of any of the Participant's Beneficiaries after the Participant's death, the Plan Administrator may, in its sole discretion, accelerate and pay all or part of the value of a Participant's Bookkeeping Account Balance in the event of an unforeseeable Financial Emergency. An accelerated distribution must be limited to only that amount necessary to relieve the financial emergency.

ARTICLE VIII

BENEFICIARY

8.01 Beneficiary Designation. A Participant shall designate a Beneficiary to receive benefits under the Plan on the Beneficiary Designation Form provided by the Plan Administrator. If more than one Beneficiary is named, the share and/or precedence of each Beneficiary shall be indicated. A Participant shall have the right to change the Beneficiary by submitting to the Plan Administrator a new Beneficiary Designation Form.

8.02 Proper Beneficiary. If the Plan Administrator has any doubt as to the proper Beneficiary to receive payments hereunder, the Plan Administrator shall have the right to withhold such payments until the matter is finally adjudicated. However, any payment made by the Plan Administrator, in good faith and in accordance with this Plan, shall fully discharge the Company from all further obligations with respect to that payment.

8.03 Minor or Incompetent Beneficiary. In making any payments to or for the benefit of any minor or an incompetent Beneficiary, the Plan Administrator, in its sole and absolute discretion, may make a distribution to a legal or natural guardian or other relative of a minor or court appointed committee of such incompetent. Alternatively, it may make a payment to any adult with whom the minor or incompetent temporarily or permanently resides. The receipt by a guardian, committee, relative or other person shall be a complete discharge to the Company. Neither the Company nor the Plan Administrator shall have any responsibility to see to the proper application of any payments so made.

8.04 No Beneficiary Designation. If a Participant fails to designate a Beneficiary as provided in Section 8.01 above, or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.

ARTICLE IX

ADMINISTRATION OF THE PLAN

9.01 Majority Vote. All resolutions or other actions taken by the Committee shall be by vote of a majority of those present at a meeting at which a majority of the members are present, or in writing by all the members at the time in office if they act without a meeting.

9.02 Finality of Determination. Subject to the Plan, the Committee shall, from time to time, establish rules, forms and procedures for the administration of the Plan. Except as herein otherwise expressly provided, the Committee shall have the exclusive right to interpret the Plan and to decide any and all matters arising thereunder or in connection with the administration of the Plan, and it shall endeavor to act, whether by general rules or by particular decisions, so as not to discriminate in favor of or against any person. The decisions, actions and records of the Committee shall be conclusive and binding upon the Company and all persons having or claiming to have any right or interest in or under the Plan, and cannot be overruled by a court of law unless arbitrary or capricious.

9.03 Certificates and Reports. The members of the Committee and the officers and directors of the Company shall be entitled to rely on all certificates and reports made by any duly appointed accountants, and on all opinions given by any duly appointed legal counsel, which legal counsel may be counsel for the Company.

9.04 Indemnification and Exculpation. The Company shall indemnify and hold harmless each current and former member of the Committee and each current and former member of the Board in accordance with the bylaws of the Company.

9.05 Expenses. The expenses of administering the Plan shall be borne by the Company.

9.06 FICA and Other Taxes. For each Plan Year in which an Annual Deferral Amount is being withheld or a Company Contribution becomes vested, the Company shall ratably withhold from that portion of the Participant's salary that is not being deferred, the Participant's share of FICA and other employment taxes.

ARTICLE X

CLAIMS PROCEDURE

10.01 Written Claim. Benefits shall be paid in accordance with the provisions of this Plan. The Participant, or a designated recipient or any other person claiming through the Participant shall make a written request for benefits under this Plan. This written claim shall be mailed or delivered to the Plan Administrator. Such claim shall be reviewed by the Plan Administrator or a delegate.

10.02 Denied Claim. If the claim is denied, in full or in part, the Plan Administrator shall provide a written notice within ninety (90) days setting forth the specific reasons for denial, and any additional material or information necessary to perfect the claim, and an explanation of why such material or information is necessary, and appropriate information and explanation of the steps to be taken if a review of the denial is desired.

10.03 Review Procedure. If the claim is denied and a review is desired, the Participant (or Beneficiary) shall notify the Plan Administrator in writing within sixty (60) days after receipt of the written notice of denial. In requesting a review, the Participant or Beneficiary may request a review of pertinent documents with regard to the benefits created under this agreement, may submit any written issues and comments, may request an extension of time for such written submission of issues and comments, and may request that a hearing be held, but the decision to hold a hearing shall be within the sole discretion of the Committee.

10.04 Committee Review. The decision on the review of the denied claim shall be rendered by the Committee within sixty (60) days after the receipt of the request for review (if no hearing is held) or within sixty (60) days after the hearing if one is held. The decision shall be written and shall state the specific reasons for the decision including reference to specific provisions of this Plan on which the decision is based.

ARTICLE XI

NATURE OF COMPANY'S OBLIGATION

11.01 Company's Obligation. The Company's obligations under this Plan shall be an unfunded and unsecured promise to pay. The Company shall not be obligated under any circumstances to fund its financial obligations under this Plan.

11.02 Creditor Status. Any assets which the Company may acquire or set aside to help cover its financial liabilities are and must remain general assets of the Company subject to the claims of its creditors. Neither the Company nor this Plan gives a Participant or Beneficiary any beneficial ownership interest in any asset of the Company. All rights of ownership in any such assets are and remain in the Company. All Plan Participants and Beneficiaries shall be unsecured general creditors of the Company.

ARTICLE XII

MISCELLANEOUS

12.01 Written Notice. Any notice which shall be or may be given under the Plan shall be in writing and shall be mailed by United States mail, postage prepaid. If notice is to be given to the Company, such notice shall be addressed to the Plan Administrator at Churchill Downs Incorporated. If notice is to be given to the Participant, such notice shall be sent to the Participant's last known address.

12.02 Change of Address. Any party may, from time to time, change the address to which notices shall be mailed by giving written notice of such new address.

12.03 Merger, Consolidation or Acquisition. The Plan shall be binding upon the Company, its assigns, and any successor to the Company which shall succeed to substantially all of its assets and business through merger, acquisition or consolidation, and upon a Participant, a Beneficiary, assigns, heirs, executors and administrators.

12.04 Amendment and Termination. The Company retains the sole and unilateral right to terminate, amend, modify, or supplement this Plan, in whole or part, at any time. However, no Company action under this right shall reduce the Bookkeeping Account Balance of any Participant or Beneficiary not yet in payment status or reduce benefits that are in payment status.

12.05 Employment. This Plan does not provide a contract of employment between the Company and the Participant.

12.06 Non-transferability. Except insofar as prohibited by applicable law, no sale, transfer, alienation, assignment, pledge, collateralization or attachment of any benefits under this Plan shall be valid or recognized by the Company. Neither the Participant, spouse, or designated Beneficiary shall have any power to hypothecate, mortgage, commute, modify, or otherwise encumber in advance of any of the benefits payable hereunder, nor shall any of said benefits be subject to seizure for the payment of any debts, judgments, alimony maintenance, owed by the Participant or Beneficiary, or be transferable by operation of law in the event of bankruptcy, insolvency, or otherwise.

12.07 Legal Fees. All reasonable legal fees incurred by any Participant (or former Participant or Beneficiary) to successfully enforce valid rights under this Plan shall be paid by the Company in addition to sums due under this Plan.

12.08 Tax Withholding. The Company may withhold from a payment any federal, state, or local taxes required by law to be withheld with respect to such payment and such sum as the Company may reasonably estimate as necessary to cover any taxes for which the Company may be liable and which may be assessed with regard to such payment.

12.09 Acceleration of Payment. The Company reserves the right to accelerate the payment of any benefits payable under this Plan at any time without the consent of the Participant, the Participant's estate, a Beneficiary or any other person claiming through the Participant.

12.10 Applicable Law. This Plan shall be governed by the laws of the Commonwealth of Kentucky.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by its duly authorized officer on this ________ day of _________________, 1999, effective as of the 1st day of __________________, 1999.

CHURCHILL DOWNS INCORPORATED

By:/s/Thomas H. Meeker
- -------------------------------------
Thomas H. Meeker
President and Chief Executive Officer

ATTEST:

By:_____________________________________

[SEAL]

EXHIBIT 23

We consent to the incorporation by reference in the registration statements of Churchill Downs Incorporated on Forms S-8 (File Nos. 33-85012, 333-62013, and 33-61111) of our report, dated February 24, 1999 on our audits of the consolidated financial statements and consolidated financial statement schedule of Churchill Downs Incorporated as of December 31, 1998, 1997 and 1996 and for each of the three years then ended which report is included in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopersC
PricewaterhouseCoopers LLP

Louisville, Kentucky
March 29, 1999

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1
U.S. Dollars

Year
DEC-31-1998
JAN-01-1998
DEC-31-1998
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